TEMPLE
Real Estate Investment Trust

2009 ANNUAL REPORT

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Unitholder Returns

	Year Ended December 31, 2009	Year Ended December 31, 2008
Distribution per unit	$0.50	$1.10
Opening unit price	$5.00	$6.80
Closing unit price	$2.69	$5.00
Annualized yield on opening price (distribution/opening unit price)	10.0%	16.2%

The trust units of Temple Real Estate Investment Trust are listed on the TSX Venture Exchange under the symbol "TR.UN". The 7.5% Series A and 8.5% Series B convertible debentures are listed on the TSX Venture Exchange under the symbol of "TR.DB.A" and "TR.DB.B", respectively. The 8.75% Senior Secured convertible debentures are listed on the TSX Venture Exchange under the symbol of TR.DB.S.

REPORT TO UNITHOLDERS

Net Income and Operating Cash Flows

At the end of 2008, Temple REIT acquired the Capri Centre, a full-service hotel located in Red Deer, Alberta, comprised of 218 hotel rooms, a 53,110 square foot conference centre, three restaurants and numerous other amenities. The acquisition of the Capri Centre and, to a much lesser extent, the acquisition of the Best Western Wayside Inn and Suites in June 2008, represented a substantial source of incremental operating income for Temple REIT during 2009. The incremental income from the Capri Centre and Best Western hotels was more than offset, however, by a decline in combined operating income from the other eight hotel properties and, in particular, from the six hotels in Fort McMurray. The hotel portfolio in Fort McMurray experienced a significant decline in occupancy levels during 2009, due to the slowdown of new development activity in the oil sands industry.

After accounting for the decrease in operating income from the Fort McMurray hotel portfolio and other variables, including an increase in financing expense and amortization charges, the net income of Temple REIT decreased by approximately $7.8 Million in 2009, compared to 2008. Cash provided by operating activities also decreased by $6.2 Million in 2009, compared to 2008, largely due to the decrease in operating income and an increase in non-cash financing expenses. As a result of the decrease in cash flow, the distributions of Temple REIT were reduced from monthly distributions of $0.10 per unit in January and February 2009 to quarterly distributions of $0.10 per unit for the second, third and fourth quarter of 2009.

2009 Highlights

Notwithstanding the decline in income, a number of positive events occurred during 2009 which had a favourable impact on the overall financial results of the Trust.

As noted above, Temple REIT acquired the Capri Centre at the end of 2008 and, during 2009, the hotel contributed $5.6 Million of operating income to the Trust. In August 2009, the 68-room expansion of the Merit Hotel was completed at a total cost of $19.8 Million. Although the Merit Hotel experienced a reduction in operating income during 2009 as a result of a decrease in the overall occupancy level of the hotel, the 68-room expansion has increased the longer term earning potential of the hotel.

Temple REIT successfully completed a $15 Million public offering of 8.75% convertible debentures, collected on a loan receivable of $7.07 Million, including accrued interest of approximately $1.07 Million, and obtained $3 Million of new funding from the upward refinancing of the first mortgage loan debt of the Temple Gardens hotel. Over the course of the year, the additional capital was primarily used to pay down higher cost debt and to improve the cash position of the Trust. Debt repayments in 2009 included the retirement of the $10 Million second mortgage loan on Clearwater Suites and the repayment of $7.0 Million of the 12% mortgage loan on the Merit Hotel expansion. As of December 31, 2009, the cash balance of Temple REIT was $7.4 Million, compared to $2.8 Million, as of December 31, 2008.

Summary

During the very challenging economic environment which existed during 2009, Temple REIT generated $11.5 Million of cash flow from operating activities, paid down $17.2 Million of higher cost debt from capital raised through the operating, investing and financing activities, increased its year end cash position by $4.6 Million, compared to 2008, and continued to pay distributions to its Unitholders, albeit at the reduced amount of $0.10 per unit per quarter. The ability of Temple REIT to improve its earnings position in 2010 is largely dependent on the rate of an improvement in the competitive accommodation market conditions in Fort McMurray (i.e. hotels, furnished rental apartments, and construction crew camps). We remain optimistic, however, that the potential for growth in unit values remains favourable from a longer term perspective.

TEMPLE REAL ESTATE INVESTMENT TRUST

ARNI C. THORSTEINSON, CFA
President & Chief Executive Officer
April 26, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

Forward-Looking Statements

Management's Discussion and Analysis ("MD&A") of Temple Real Estate Investment Trust ("Temple REIT" or the "Trust") should be read in conjunction with the financial statements of Temple REIT for the year ended December 31, 2009 and with reference to the quarterly reports for 2009.

Certain statements contained in this MD&A and in certain documents incorporated by reference herein are "forward-looking statements" that reflect the expectations of management regarding the future growth, results of operations, performance, prospects and opportunities of Temple REIT. Readers are cautioned not to place undue reliance on forward-looking information. All statements other than statements of historical fact contained or incorporated by reference herein are forward-looking statements including, without limitation, statements regarding the timing and amount of distributions and the future financial position, business strategy, potential acquisitions, plans and objectives of Temple REIT. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risks and uncertainties. A number of factors, as discussed herein, could cause actual results to differ materially from the results discussed in forward-looking statements. Although the forward-looking statements contained or incorporated by reference herein are based upon what management believes to be reasonable assumptions, Temple REIT cannot assure investors that actual results will be consistent with these forward-looking statements.

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. Forward-looking statements are made as of the date hereof, or such other date specified in such statements, and neither Temple REIT nor any other person assumes any obligation to update or revise such forward-looking statements to reflect new information, events or circumstances, except as expressly required by applicable securities law.

Purchase Price/Acquisition Cost

Unless otherwise noted, all references to "purchase price(s)" or "acquisition cost(s)", as disclosed in this report, exclude closing costs and other adjustments on closing.

Appraised Value

In this management discussion and analysis, references are made to the appraised value of Temple REIT's property portfolio.

In summary, the total appraised value of the property portfolio is $309,460,000 at December 31, 2009. Appraisals of five properties, representing 58% of total appraised value, were prepared in 2009, appraisals of two properties, representing 24% of total appraised value, were prepared in 2008 and an appraisal of two properties, representing 18% of total appraised value were prepared in 2007.

The appraised value is based on appraisals prepared by independent appraisers. The appraisals are estimates only, are made effective as at the date set forth in the appraisal and are subject to a number of assumptions, qualifications and limiting conditions, including but not limited to those described in such appraisals. Such assumptions, qualifications and limiting conditions generally include, among other things: (i) that title to the property is good and marketable; (ii) there are no encroachments, encumbrances, restrictions, leases or covenants that would in any way affect valuation, except as noted in the appraisals; (iii) the existing use of the property is legal and may be continued by any purchaser of the property; (iv) there has been no delinquency in the payment of taxes relating to the property; (v) that environmental laws have been complied with and there are no potentially hazardous materials on the property or any adjoining property; and (vi) that there are no patent or latent defects in the buildings located on the property.

There can be no assurance that the appraised value of a property is an accurate reflection of the value of such property as at the effective date set forth in the appraisal or on any other date, including on December 31, 2009. In addition, there can be no assurance that the valuation method or the capitalization rate(s) used in appraising a property was appropriate for such property as at the effective date set forth in the appraisal or on any other date, including on December 31, 2009.

Temple REIT undertakes no obligation to update the appraised value of its portfolio from time to time.

FINANCIAL AND OPERATING STATISTICS

	Year Ended December 31					
	2009		2008		2007	
DISTRIBUTIONS						
Amount - total	$ 6,410,009		$ 12,931,226		$ 5,348,041	
- per unit	$ 0.50		$ 1.10		$ 0.64	
BALANCE SHEET						
Total Assets	$ 269,813,482		$ 260,478,528		$ 184,615,851	
Total Long-Term Debt and Convertible Debentures	$ 199,189,940		$ 187,941,446		$ 131,212,484	
KEY PERFORMANCE INDICATORS						
Operations:						
Occupancy *	52.91%		73.55%		76.87%	
ADR *	$173.74		$183.78		$172.14	
RevPar *	$91.94		$135.18		$132.32	
Operating profit margin *	37.35%		50.70%		49.47%	
Operating results:						
Total revenue	$ 65,811,591		$ 56,481,296		$ 34,406,559	
Operating income	$ 24,580,776		$ 28,637,201		$ 17,018,646	
Net income	$ 904,278		$ 8,708,263		$ 3,267,422	
Cash flows:						
Distributable income *	$ 7,476,083		$ 14,558,662		$ 6,160,804	
Funds from operations	$ 8,187,133		$ 15,115,604		$ 6,583,385	
Financing:						
Weighted average interest rate of long-term debt *	6.51%		6.34%		6.45%	
PER UNIT AMOUNTS	Basic	Diluted	Basic	Diluted	Basic	Diluted
Net income	$0.07	$0.07	$0.76	$0.75	$0.41	$0.40
Distributable income *	$0.58	$0.58	$1.27	$0.97	$0.77	$0.76
Funds from operations *	$0.64	$0.64	$1.31	$1.01	$0.82	$0.81

Non-GAAP Measurements

Items marked with an asterisk represent measurements which are not calculated or presented in accordance with GAAP or which do not have a standardized meaning as prescribed by GAAP. The non-GAAP measurements may not be comparable to the measurements which are provided by other entities and should not be used as an alternative to the measurements which are determined in accordance with GAAP for purposes of assessing the performance of Temple REIT. Temple REIT believes, however, that the non-GAAP measurements are useful in supplementing the reader's understanding of the performance of the Trust.

FFO is a measure of cash flow that is not defined under Canadian GAAP, and accordingly, may not be comparable to similar measures used by other issuers. Funds from operations (FFO) is defined as net income in accordance with Canadian GAAP, subject to certain adjustments as set out in the Declaration of Trust, including adding back amortization, future income taxes (recovery) expense and unit based compensation that is included in the computation of net income, and making any other adjustments determined by the trustees of the REIT in their discretion.

Details regarding the calculation of the non-GAAP measurements and a reconciliation to GAAP measurements, where applicable, are provided in the report.

EXECUTIVE SUMMARY

Core Business and Strategy

Temple REIT was established in order to create a portfolio of income-producing hotel properties. The core business activities of Temple REIT consist of investment, development and management activities which are focused on maximizing the return on the hotel portfolio.

As of December 31, 2009, the real estate portfolio of Temple REIT consists of ten hotel properties with a cost of approximately $265 Million, including six hotel properties located in Fort McMurray, Alberta.

A more detailed description of the operations and business strategy of Temple REIT is provided in the section of the MD&A titled "Overview of Operations and Business Strategy".

Key Events - 2009

Acquisition and Development

Capri Centre

Although the Capri Centre was acquired in 2008, the hotel effectively did not have an impact on the revenues and operating income of Temple REIT until 2009, given that the acquisition date was at the end of the year on December 30, 2008. The Capri Centre is one of the largest hotels in the Temple REIT hotel portfolio.

Merit Expansion

The 68-room expansion of the Merit Hotel was substantially completed in July 2009 and the new rooms were available to Temple REIT, effective August 1, 2009. Notwithstanding the additional rooms, the net operating income of the hotel decreased in 2009, due to the decline in hotel market conditions in Fort McMurray.

The cost of the hotel expansion was based on a fixed price construction contract of $19,040,000, excluding GST. After accounting for the initial deposit of $500,000, the balance owing on the Merit Hotel expansion was $18,540,000, excluding GST.

The balance owing was funded by a 12% mortgage loan of $14.04 Million from the builder and through the issuance of 4.5% convertible mortgage debt of $4.5 Million, with a due date of October 31, 2014.

Financing

Mortgage Loan Receivable

In 2007, Temple REIT provided $6 Million of 10% first mortgage loan financing on a potential hotel acquisition in Edson, Alberta, with payments of interest and principal due on the maturity date. On September 7, 2009, the total amount due, including accrued interest, was paid in full, resulting in gross proceeds to Temple REIT of approximately $7.07 Million.

The proceeds from the loan receivable were primarily used to pay down the balance of the second mortgage loan of Clearwater Suites.

Upward Refinancing of Temple Gardens Hotel

In September 2009, the 6.35% first mortgage loan of the Temple Gardens Hotel was upward refinanced by approximately $3 Million. The proceeds from the upward refinancing were used to fund a $2 Million principal payment on the mortgage loan debt of the Merit Hotel expansion.

Convertible Debenture Offering

On November 27, 2009, Temple REIT completed a $15 Million public offering of 8.75% Senior Secured convertible redeemable debentures.

The proceeds from the debenture offering were mainly used to pay down higher cost debt and increase the cash reserves of the Trust.

Second Mortgage Loan of Clearwater Suites

The acquisition of Clearwater Suites in March 2007 encompassed a second mortgage loan of $10 Million, with a maturity date of February 1, 2010, requiring payments of interest only.

As noted above, the second mortgage loan was partially repaid in September 2009 and fully repaid in November 2009. Overall, interest expense on the Clearwater Suites second mortgage loan increased by $68,065 during 2009, compared to 2008.

Mortgage Loan on Merit Hotel Expansion

As noted above, the Merit Hotel expansion was partially funded by a 12% mortgage loan from the builder in the amount of $14.04 Million. The loan is due on October 31, 2010 and requires payments of interest only, aside from a $2 Million principal payment which was due and paid by Temple REIT in October 2009.

As of December 31, 2009, the loan was reduced to a balance of $7,040,000.

Operations

During 2009, Temple REIT incurred a net income, before taxes, of $1,502,448, compared to a net income, before taxes, of $9,663,070 in 2008, representing an decrease in the net income of $8,160,622. The decrease mainly reflects the following:

- a decrease in net operating income of $4,056,425;
- an increase in financing expense of $3,240,199;
- an increase in amortization of $1,481,187; and
- a decrease in the loss associated with the change in value of marketable equity securities of $593,422.

Cash from operating activities also decreased by $6,155,031 in 2009, primarily due to the decrease in net operating income and an increase in interest expense on mortgage loans for the Capri Centre and Merit Hotel expansion.

Net Operating Income

Although recessionary influences had a negative impact on local market conditions for all of the Temple REIT hotels in 2009, the economic downturn, or more specifically, the slow down of development activity in the oil and gas industry had a more pronounced impact on the Fort McMurray hotel portfolio, given the extent to which the Fort McMurray economy is driven by the oil and gas industry.

The decrease in net operating income during 2009 is largely due to the impact of the recession on the operating results of the Fort McMurray hotel portfolio. During 2009, the net operating income of the Fort McMurray hotel portfolio decreased by $8,476,620 or 41%, compared to 2008, primarily due to a decline in occupancy levels. During 2009, the average occupancy level and REVPAR of the Fort McMurray hotel portfolio was 51% and $101.79, respectively, compared to 75% and $154.70 in 2008.

The decrease in net operating income from the Fort McMurray hotel portfolio was partially offset by incremental operating income from the Capri Centre. During 2009, the net operating income of the Capri Centre increased by $5,632,678.

Financing Expense

The increase in financing expense is directly related to the "key events" which occurred during 2009. Specifically, the increase in financing expense mainly reflects the incremental interest expense on the mortgage loans for the Capri Centre and the Merit Hotel expansion, the upward refinancing of the mortgage debt of the Temple Gardens Hotel, the 8.75% convertible debenture offering in November 2009 and the increased interest rate on the Clearwater Suites second mortgage loan. Incremental interest on the mortgage loan of the Best Western Wayside Inn also contributed to the increase in financing expense.

Amortization

The increase in amortization mainly reflects incremental amortization charges on the Capri Centre, Merit Hotel expansion and the Best Western Wayside Inn.

Distributions

After paying a monthly distribution of $0.10 per unit in January and February 2009, Temple REIT changed its periodic distributions to a quarterly distribution of $0.10 per unit commencing in the second quarter of 2009. In total, Temple REIT paid distributions of $0.50 per unit in 2009, compared to $1.10 per unit in 2008. The reduction in distributions was necessitated due to the reduction in operating income from the Fort McMurray hotel portfolio.

Outlook for 2010

As of December 31, 2009, the overall financial position of Temple REIT is adequate, given the level of cash reserves and the existing debt structure of the Trust despite that economic conditions in Fort McMurray declined significantly in 2009.

Key Risks and Uncertainties

The timing and extent of the economic recovery in Fort McMurray is a primary risk factor for Temple REIT, given the concentration of hotel properties in Fort McMurray. Economic conditions in Fort McMurray affect the operating cash flows of Temple REIT, as well as the financing capabilities of the Trust and the cash distribution policy.

The refinancing of the 12% mortgage loan on the Merit Hotel expansion encompasses a higher degree of risk in comparison to the other mortgage loans of Temple REIT, as the loan was provided by the builder and is unlikely to be renewed at maturity on October 31, 2010. Management believes that a replacement loan can be obtained at maturity or that interim financing can be arranged.

There are tax risks associated with the potential application of the SIFT Rules to Temple REIT and its unitholders. For a complete discussion of this risk, refer to the Tax-Related Risk Factors set out in Temple REIT's 2009 Annual Information Form.

Additional details of the key risks of Temple REIT are provided in the section of the MD&A titled "Operating Risks and Uncertainties.

OVERVIEW OF TRUST OPERATIONS

Temple Real Estate Investment Trust ("Temple REIT")

Temple Real Estate Investment Trust ("Temple REIT") is an open-ended real estate investment trust which was formed under the laws of the Province of Manitoba on July 12, 2006, pursuant to the Declaration of Trust. The head office of Temple REIT is located at 2600 Seven Evergreen Place in Winnipeg, Manitoba.

Temple REIT was established as an investment trust for the purpose of investing, directly and indirectly, in hotel properties and assets. The primary business activity of Temple REIT is the acquisition and development of income-producing hotel properties and the active management of the acquired/developed properties.

Overall Investment Objectives and Strategy

Primary Objectives

The primary investment objectives of Temple REIT are to generate stable and growing cash distributions on a tax-efficient basis, enhance the value of Temple REIT's assets and maximize long-term unit value through the active management of its assets, and expand the asset base and increase distributable income through an accretive acquisition program. The general acquisition strategy is to create a geographically and sectorally diversified portfolio of hotel properties and assets in primary and secondary markets across Canada.

Growth

The general strategy of Temple REIT for external growth is to pursue the acquisition of hotel properties and assets in markets across Canada, and possibly in the United States, based on an investment criteria which focuses on return of equity, security of cash flow and potential for capital appreciation. The target capitalization rate for hotel acquisitions is between 9% and 13%.

The assessment of the capital appreciation potential of targeted properties includes an evaluation of market conditions, an analysis of the available opportunities for increasing cash flows by implementing more efficient operating systems, and an examination of the potential redevelopment or expansion opportunities for the property.

The overall investment strategy of Temple REIT also encompasses the acquisition of hotels in regional clusters and of similar asset sizes in order to create economies of scale. Temple REIT also focuses on acquiring hotels in solid physical condition with minimal initial capital expenditure requirements.

The acquisition of additional hotel properties is expected to be deferred, however, until hotel market conditions improve.

Financing

The overall strategy of Temple REIT is to raise investment capital through the issuance of trust units or convertible debentures. In general, new property acquisitions will be funded by arranging new mortgage financing or assuming existing mortgage financing, with the remaining equity portion to be funded from the reserves of investment capital. The equity portion of new property acquisitions may also be partially funded by the exchange of trust units.

The strategy of Temple REIT is to efficiently utilize and manage leverage, targeting mortgage debt in the range of 60% to 70% of appraised value to maximize return on equity while maintaining cash flow stability. Temple REIT will pursue the upward refinancing of under-leveraged properties or the subsequent arrangement of mortgage financing for properties which are initially acquired on a 100% cash basis.

Temple REIT may also utilize acquisition lines of credit, bridge financing and other short-term financing facilities as a source of interim investment capital, as investment opportunities arise, pending the replenishment of capital reserves from additional trust unit or convertible debenture offerings.

Management

Temple REIT has assembled an experienced management team in order to assist the Trust in achieving its business objectives. The management team of Temple REIT have experience in the hotel industry and have developed key relationships with owners across North America which should enable Temple REIT to gain access to a significant acquisition pipeline.

Asset management services are provided to Temple REIT by Shelter Canadian Properties Limited ("Shelter"). Shelter brings real estate investment, development and asset management experience to Temple REIT. Please refer to the section of this report entitled "Related Party Transactions" for details of the remuneration of Shelter.

The hotel properties of Temple REIT are currently operated and managed by Atlific Hotels and Resorts ("Atlific"). Atlific currently manages a portfolio of approximately 40 properties across Canada, including hotels with the Marriott, Best Western, Comfort Inn and Holiday Inn brands. Atlific is an affiliate of Ocean Properties Ltd., one of the largest privately-owned hotel management companies in North America. Combined, Atlific and Ocean Properties have over 80 years of experience in hotel management and manage a portfolio of 100 properties. Details of the terms of the Atlific management agreements for the hotels in the Temple REIT portfolio are provided in the section of this report entitled "Hotel Management".

PROPERTY PORTFOLIO

As disclosed in the following chart, the real estate portfolio of Temple REIT consists of ten hotel properties as of December 31, 2009, comprising 1,241 rooms and with a total cost of $265 Million. The six Fort McMurray hotels encompass a total of 634 rooms, or 51% of the total rooms in the hotel portfolio.

Property Portfolio - December 31, 2009

Property	Location	Purchase Price	Acquisition Date	Rooms/Suites
Alberta				
Clearwater Suite Hotel	Fort McMurray	$ 56,500,000	March 2007	150
Merit Hotel and Suites	Fort McMurray	16,000,000	April 2007	92
Merit Hotel expansion	Fort McMurray	19,040,000	August 2009	68
Franklin Suites	Fort McMurray	18,800,000	April 2007	75
Nomad Hotel	Fort McMurray	23,700,000	April 2007	139
Nomad Suites	Fort McMurray	10,000,000	April 2007	27
Vantage Inn & Suites	Fort McMurray	19,400,000	January 2008	83
Best Western Wayside Inn & Suites	Lloydminster	22,500,000	June 2008	130
Capri Centre	Red Deer	40,000,000	December 2008	218
		225,940,000		982
Northwest Territories				
Chateau Nova	Yellowknife	13,000,000	March 2007	80
Saskatchewan				
Temple Gardens Mineral Spa Resort Hotel (1)	Moose Jaw	26,102,670	October 2006	179
Total		$ 265,042,670		1,241

Note:

(1) Ownership of the Temple Gardens hotel is held by Temple Gardens Mineral Spa Inc. (TGMS). All of the common shares of TGMS were acquired by Temple REIT at the inception of the Trust for cash consideration of $12,248,408, by issuing 276,771 trust units at a deemed value of $1,383,855 and by the assumption of long-term debt of $12,470,407, representing a total acquisition cost of $26,102,670.

The operations of TGMS also encompass a co-ownership agreement in regard to a 23,400 square foot casino complex which is located directly across from the Temple Gardens hotel. The casino complex, which is known as "Casino Moose Jaw", is subject to a 25-year lease under which the tenant is responsible for all costs associated with the leased premises, including structural or foundation repairs or replacement. TGMS has a 50% equity interest in the co-ownership agreement.

RESULTS OF OPERATIONS

Impact of Hotel Acquisition/Expansion Activity on Comparative Results

In 2008, Temple REIT acquired three hotels, namely, the Vantage Inn and Suites in Fort McMurray, Alberta, the Best Western Wayside Inn and Suites in Lloydminster, Alberta and the Capri Centre in Red Deer, Alberta.

As the Capri Centre was acquired at the end of the year in 2008, the hotel acquisition effectively did not impact the operating results of Temple REIT until 2009. Throughout this report, the incremental revenue and expenses related to the acquisition of the Capri Centre are repeatedly identified as one of the main factors affecting the comparative results for 2008 and 2009.

The Best Western Wayside Inn and Suites was acquired on June 1, 2008. The incremental revenue and expenses related to the acquisition of the Best Western hotel are also identified as one of the factors affecting the comparative results for 2008 and 2009. The impact of the Best Western hotel is not as significant as the Capri Centre for two main reasons, as follows:

(i) the Capri Centre is a much larger hotel complex and encompasses more revenue-generating amenities, compared to the Best Western hotel; and

(ii) the Capri Centre effectively contributed a full year of incremental revenue and expenses to the Trust during 2009, whereas the incremental contribution by the Best Western hotel was for an additional five month period, from January 1, 2009 to May 31, 2009, as the hotel was acquired on June 1, 2008.

The Vantage Inn and Suites was acquired on January 30, 2008. Although the hotel operations encompassed an additional 29 days in 2009, the operating income from the hotel decreased by $1,536,776 during 2009, compared to 2008, due to the decline in hotel market conditions in Fort McMurray. Similarly, although the 68 new rooms at the Merit Hotel were available for occupancy, effective August 1, 2009, the operating income from the hotel decreased by $1,797,110 during 2009, compared to 2008, due to the reduction in the occupancy level of the hotel in 2009.

The reduction in operating income from the Fort McMurray hotel portfolio, including the Vantage Inn and the newly expanded Merit Hotel, is identified throughout this report as one of the main variables which served to offset the incremental operating income from the Capri Centre and the Best Western hotel during 2009. Given the extent of the decline in hotel market conditions in Fort McMurray and as six of the ten hotels of Temple REIT are located in Fort McMurray, the reduction in operating income from the Fort McMurray hotel portfolio is the most significant factor affecting the operating results of the Trust in 2009.

The impact of market conditions on the overall results of the Fort McMurray portfolio was further compounded in 2009 by an increase in interest expense associated with the financing of the 68 room expansion at the Merit Hotel. The incremental financing expense associated with the expansion of the Merit Hotel, is also identified throughout this report as one of the main factors affecting the comparative results for 2008 and 2009.

The analyses of revenue, hotel operating costs and operating income, as disclosed in this report, provide separate totals for the Capri Centre, the Best Western hotel and the Fort McMurray hotel portfolio, given the significance of these three "variables" on overall results.

Summary of Quarterly Results

Quarterly Analysis

	2009			
	Q4	Q3	Q2	Q1
Total revenue	$ 16,123,722	$ 15,639,078	$ 16,780,369	$ 17,268,422
Operating income	$ 5,448,887	$ 5,852,451	$ 6,501,010	$ 6,778,428
Net income (loss)	$ (581,909)	$ (180,211)	$ 828,023	$ 838,375
PER UNIT				
Operating income				
- Basic	$ 0.42	$ 0.46	$ 0.51	$ 0.53
- Diluted	$ 0.42	$ 0.46	$ 0.51	$ 0.53
Net income (loss)				
- Basic	$ (0.05)	$ (0.01)	$ 0.06	$ 0.07
- Diluted	$ (0.05)	$ (0.01)	$ 0.06	$ 0.07

	2008			
	Q4	Q3 (restated)	Q2	Q1
Total revenue	$ 14,624,757	$ 15,313,120	$ 14,246,410	$ 12,297,009
Operating income	$ 6,615,295	$ 7,897,240	$ 7,663,286	$ 6,461,380
Net income	$ 633,348	$ 2,978,257	$ 2,804,198	$ 2,292,460
PER UNIT				
Operating income				
- Basic	$ 0.58	$ 0.64	$ 0.69	$ 0.67
- Diluted	$ 0.44	$ 0.49	$ 0.50	$ 0.57
Net income				
- Basic	$ 0.06	$ 0.24	$ 0.25	$ 0.24
- Diluted	$ 0.04	$ 0.22	$ 0.24	$ 0.24

From a general perspective, the quarterly results of Temple REIT, as disclosed in the preceding chart, reflect the ongoing growth in operating income due to the acquisition of additional properties, with the decline in general economic conditions beginning to significantly impair the rate of growth during the first quarter of 2009. The quarterly results also reflect seasonal fluctuations in demand at the hotels, particularly for the Fort McMurray portfolio where there is typically a reduction in demand during July, August and December.

The third and fourth quarters of 2008 are the only quarterly periods in which the number of hotels contributing to operating income effectively did not change during 2008, as the Capri Centre was not acquired until December 30, 2008. During the fourth quarter of 2008, the operating income of Temple REIT decreased by $1,281,945 or 16%, compared to the third quarter of 2008, mainly due to a reduction in demand for the Fort McMurray hotels. The reduced demand in Fort McMurray partially reflects the change in demand which normally occurs in December, as well as an overall reduction in demand due to the declining market conditions in Fort McMurray. The write-down of marketable securities by $786,142 also served to reduce net income during the fourth quarter of 2008.

During the first quarter of 2009, the operating income of Temple REIT increased by $163,133 or 2%, compared to the fourth quarter of 2008. The increase mainly reflects the incremental operating income from the Capri Centre, largely offset by a reduction in operating income from the other hotel properties and, in particular the hotel portfolio in Fort McMurray. The reduction in operating income from the hotel portfolio in Fort McMurray, and from the other hotels, reflects the impact of recessionary influences for a full quarter as overall economic conditions continued to decline. Net income increased by $205,027 during the first quarter of 2009, as the fourth quarter results for 2008 were comparatively low due to the significant write-down related to the change in value of marketable securities, as noted above.

During the second quarter of 2009, the operating income of Temple REIT decreased by $277,418, compared to the first quarter of 2009. The decrease is primarily due to a decrease in operating income from the Capri Centre, partly offset by an increase in operating income from Temple Gardens and Chateau Nova. Net income was virtually unchanged during the second quarter of 2009 as the decrease in operating income was almost entirely offset by a decrease in financing expense and an increase in the value of marketable securities.

During the third quarter of 2009, operating income decreased by $648,559, compared to the second quarter of 2009, mainly due to a decrease in "other" hotel revenue at the Capri Centre, partially offset by a decrease in hotel operating costs. Net income decreased by $1,008,234 during the third quarter of 2009, mainly due to the decrease in operating income, combined with an increase in financing expense associated with the new mortgage debt for the Merit Hotel expansion and the increase in the interest rate on the second mortgage loan of the Clearwater Suites hotel.

During the fourth quarter of 2009, operating income decreased by $403,564, compared to the third quarter of 2009. The decrease is mainly due to a decrease in room revenue from the Fort McMurray hotel portfolio, as a result of a decrease in occupancy levels and room rates. After accounting for the decrease in operating income and a combined increase in financing, trust and amortization expenses of $402,704, the net loss increased by $401,698 during the fourth quarter of 2009.

Detailed Analysis of Operating Results

Analysis of Net Income *

	Year Ended December 31		
	2009	2008 (restated)	Increase/ (Decrease)
Hotel revenue			
Room	$ 40,493,644	$ 45,409,497	$ (4,915,853)
Other	22,640,830	8,300,285	14,340,545
Total hotel revenue	63,134,474	53,709,782	9,424,692
Interest and other income	2,677,117	2,771,514	(94,397)
Total revenue	65,811,591	56,481,296	9,330,295
Hotel operating costs	41,230,815	27,844,095	13,386,720
Operating income	24,580,776	28,637,201	(4,056,425)
Finance expense	15,521,431	12,281,232	3,240,199
Trust expense	709,711	733,478	(23,767)
Amortization	6,558,811	5,077,624	1,481,187
	1,790,823	10,544,867	(8,754,044)
Change in marketable securities	(288,375)	(881,797)	593,422
Income taxes	598,170	954,807	(356,637)
Net income	$ 904,278	$ 8,708,263	$ (7,803,985)

* The analysis of net income represents the reformatting of balances from the Consolidated Statements of Income (loss) and Comprehensive Income (loss), per the financial statements of Temple REIT, in order to provide amounts which correspond to the analysis in this report. All of the amounts in the analysis agree to the financial statements with the following exceptions:

(i) the analysis separates "hotel revenue" into two components, namely "room revenue" and "other hotel revenue";
(ii) the analysis combines the "current" and "future" component of income taxes into one line; and
(iii) the analysis provides a sub-total for income before change in marketable securities and taxes; and
(iv) the analysis does not provide a sub total for "income before taxes".

Overall Results

In comparison to 2008, the income of Temple REIT, before taxes and the change in value of marketable securities, decreased by $8,754,044 during 2009.

The decrease in income mainly reflects a decrease in operating income from hotel operations of $4,056,425, an increase in financing expense of $3,240,199 and an increase in amortization expense of $1,481,187.

The decrease in operating income mainly reflects a decline in operating income from the hotel portfolio in Fort McMurray, partially offset by incremental operating income from the Capri Centre and, to a much lesser extent, from the Best Western Wayside Inn.

The increase in financing expense and amortization mainly reflects incremental financing and amortization charges related to the acquisition of the Capri Centre on December 30, 2008 and, to a lesser extent, the acquisition of the Best Western Wayside Inn on June 1, 2008 and the completion of the Merit Hotel expansion, effective August 1, 2009.

After providing for taxes and the change in value of marketable securities, Temple REIT completed 2009 with income of $904,278, representing a decrease of $7,803,985 compared 2008.

Revenue

Hotel Market Conditions

In addition to the six hotel properties in Fort McMurray, Temple REIT has four other hotels located in Moose Jaw, Saskatchewan; Yellowknife, Northwest Territories; Lloydminster and Red Deer, Alberta.

Although recessionary influences had a negative impact on local market conditions for most of the Temple REIT hotels in 2009, the economic downturn, or more specifically, the slowdown of development activity in the oil sands industry had a more pronounced impact on the Fort McMurray hotel portfolio, given the extent to which the Fort McMurray economy is driven by the oil sands.

Although development activity in the oil sands industry is displaying signs of an upturn, the general consensus is that the economic recovery in Fort McMurray will occur gradually and will be largely dependent on the extent to which world economic conditions improve.

Total Revenue

Analysis of Total Revenues

	Amount Year Ended December 31		% of Total Year Ended December 31	
	2009	2008 (restated)	2009	2008 (restated)
Hotel revenue				
Room	$ 40,493,644	$ 45,409,497	62 %	80 %
Other	$ 22,640,830	$ 8,300,285	34 %	15 %
Total hotel revenue	$ 63,134,474	$ 53,709,782	96 %	95 %
Interest and other income	$ 2,677,117	$ 2,771,514	4 %	5 %
Total	$ 65,811,591	$ 56,481,296	100 %	100 %

The revenue of Temple REIT is comprised of "hotel revenue" and "interest and other income". For analytical purposes, "hotel revenue" is divided into two components, namely, "room revenue" and "other hotel revenue".

As disclosed in the preceding chart, room revenue is the primary source of revenue for Temple REIT, accounting for 62% and 80% of total revenues during 2009 and 2008, respectively. The percentage decrease in room revenue during 2009 reflects the proportionately higher increase in "other" hotel revenue generated by the Capri Centre, as well as a reduction in hotel revenue from the Fort McMurray hotel portfolio.

Room Revenue

Room Revenue Analysis

	Year Ended December 31		
	2009	2008	Increase/ (Decrease)
Fort McMurray	$ 22,842,771	$ 32,021,677	$ (9,178,906)
Temple Gardens & Chateau Nova	10,344,679	11,114,439	(769,760)
Best Western Wayside Inn	3,051,972	2,261,562	790,410
Subtotal	36,239,422	45,397,678	(9,158,256)
Capri Centre	4,254,222	11,819	4,242,403
Total	$ 40,493,644	$ 45,409,497	$ (4,915,853)

Room revenue decreased by $4,915,853 or 11% during 2009, compared to 2008. As reflected in the chart above, the decrease mainly reflects a decline in room revenue at the Fort McMurray hotels, partially offset by the incremental room revenue from the acquisition of the Best Western Wayside Inn and the Capri Centre on June 1, 2008 and December 30, 2008, respectively. Room revenue from the Best Western Wayside Inn and Capri Centre contributed an additional $5,032,813 during 2009, while revenue from other hotels decreased by $9,948,666.

A summary of the revenue statistics for the hotel portfolio of Temple REIT is provided in the following charts. As disclosed in the first chart, the Revenue per Available Room ("RevPar") for the Fort McMurray hotel portfolio decreased to $101.79 per room during 2009, compared to $154.70 per room during 2008. The decrease in RevPar mainly reflects a decrease in the average occupancy level.

Room Revenue Statistics

	Year Ended December 31					
	2009			2008		
	Occ	ADR	RevPar	Occ	ADR	RevPar
Fort McMurray	51 %	$ 200.12	$ 101.79	75 %	$ 205.18	$ 154.70
Temple Gardens & Chateau Nova	66 %	$ 152.79	$ 100.12	74 %	$ 152.04	$ 112.99
Best Western Wayside Inn	51 %	$ 127.01	$ 64.77	63 %	$ 130.47	$ 81.96
Subtotal	55 %	$ 177.36	$ 96.74	74 %	$ 183.78	$ 135.18
Capri Centre	40 %	$ 134.15	$ 53.48	N/A	N/A	N/A
Overall portfolio	53 %	$ 173.74	$ 91.94	74 %	$ 183.78	$ 135.18

RevPar is a non-GAAP measurement which is commonly used within the hotel industry to evaluate hotel operations and is generally considered to be the leading indicator of operating performance. RevPar is calculated by multiplying the average daily room rate ("ADR") by the occupancy level. RevPar does not include revenues from food and beverage operations or from other hotel service.

The occupancy level is calculated by dividing the number of rooms available during the reporting period into the number of rooms actually rented. ADR is calculated by dividing total room revenue by the number of rooms rented.

Other Hotel Revenue

Analysis of Other Hotel Revenue

	Year Ended December 31		
	2009	2008	Increase/ (Decrease)
Fort McMurray	$ 879,231	$ 973,697	$ (94,466)
Temple Gardens & Chateau Nova	4,772,606	4,939,950	(167,344)
Best Western Wayside Inn	2,964,828	2,311,719	653,109
Sub-total	8,616,665	8,225,366	391,299
Capri Centre	14,024,165	74,919	13,949,246
Total	$ 22,640,830	$ 8,300,285	$ 14,340,545

"Other hotel revenue" includes food and beverage revenue, spa revenue, video lottery terminal revenue, parking and gift shop revenue.

During 2009, "Other Hotel Revenue" increased by $14,340,545 or 173% compared 2008, mainly due to the incremental revenue from the Capri Centre and, to a lesser extent, from the Best Western Wayside Inn.

Hotels which encompass more extensive amenities, such as lounges, restaurants, liquor stores or banquet and conference facilities, generate a higher amount of "other hotel revenue", in comparison to the other hotels. During 2009, approximately $14.02 Million or 62% of "other hotel revenue" was derived from the Capri Centre. Other hotels which were major contributors to "other hotel revenue" include Temple Gardens Mineral Spa Resort and the Best Western Wayside Inn and Suites.

The Capri Centre has numerous income-generating amenities, including a 53,110 square foot conference centre, three restaurants, three lounges, a leased gift shop, clothing store and hair salon and a free-standing liquor store. During 2009, the total contribution to hotel revenue by the Capri Centre amounted to $18,278,387, of which 77% was attributable to "other hotel revenue".

Although the total increase in "other hotel revenue" exceeded the total decrease in room revenue by $9,424,692 during 2009, the net increase in revenue was exceeded by an increase in hotel operating expenses of $13,386,720. As disclosed in the analysis of "hotel operating costs", the increase in expenses is mainly attributable to the Capri Centre and the comparatively high level of operating costs which are directly related to the income-generating amenities of the hotel. As a result of the comparatively high level of operating costs, the profit margin for "other hotel revenue" is also comparatively low.

Interest and Other Income

Interest and other income consists of interest and other income related to hotel operations, as well as interest and other income related and general Trust "operations". Interest and other income from hotel operations consists primarily of income related to the co-ownership interest of the Temple Gardens hotel in the "Casino Moose Jaw", interest income on the operating cash balances of the hotel properties and miscellaneous hotel income. Interest and other income related to general Trust operations includes interest income on the excess cash reserves of the Trust and interest income on mortgage loans receivable.

During 2009, "Interest and Other Income" decreased by $94,397, compared to 2008, mainly due to an decrease in interest income from general Trust operations.

Interest and other income from general Trust operations decreased from $798,858 in 2008 to $452,766 in 2009. The decrease is mainly attributable to the collection of the mortgage loan receivable and a decrease in the average monthly balance of excess cash reserves in 2009.

Hotel Operating Costs

Hotel operating costs include all costs related to the operation of the hotel properties, including asset management fees pertaining to the gross revenues of the hotel properties. Expenses related to the overall administration and management of the Trust, including legal, audit and securities commission fees are classified as "Trust" expenses. An analysis of hotel operating costs is provided below.

Analysis of Operating Expenses

	Year Ended December 31		
	2009	2008	Increase/ (Decrease)
Fort McMurray			
Operating costs	$ 9,659,080	$ 10,583,029	$ (923,949)
Property taxes and insurance	1,656,837	1,559,354	97,483
Fees	968,191	1,090,983	(122,792)
	$ 12,284,108	$ 13,233,366	$ (949,258)
Temple Gardens & Chateau Nova			
Operating costs	9,753,794	9,807,501	(53,707)
Property taxes and insurance	946,209	895,570	50,639
Fees	620,145	548,343	71,802
	$ 11,320,148	$ 11,251,414	$ 68,734
Best Western Wayside Inn			
Operating costs	4,080,585	2,959,350	1,121,235
Property taxes and insurance	159,099	105,670	53,429
Fees	270,065	174,901	95,164
	$ 4,509,749	$ 3,239,921	$ 1,269,828
Subtotal	$ 28,114,005	$ 27,724,701	$ 389,304
Capri Centre			
Operating costs	12,048,399	114,589	11,933,810
Property taxes and insurance	482,446	1,620	480,826
Fees	585,965	3,185	582,780
	$ 13,116,810	119,394	$12,997,416
Total	$ 41,230,815	$ 27,844,095	$13,386,720

Notes:

(1) Cost of Sales consists primarily of variable costs which are directly associated with revenues generated from hotel sales. Cost of Sales also includes bad debt expense. Administrative costs include employees wages and administrative office expenses.

(2) Fees include asset management fees related to the gross revenue of the hotel properties and property management fees, as follows:

Analysis of Fees included in Operating Expenses

	Year Ended December 31		
	2009	2008	Increase/ (Decrease)
Atlific property management fees	$ 1,463,979	$ 983,610	$ 480,369
Shelter asset management fees	980,387	833,802	146,585
Total	$ 2,444,366	$ 1,817,412	$ 626,954

During 2009, hotel operating costs increased by $13,386,720 or 48%, compared 2008. As with room revenues, the increase in hotel operating costs mainly reflects the incremental costs associated with the acquisition of the Best Western Wayside Inn and the Capri Centre while the costs from the Fort McMurray portfolio has decreased by $949,258. During 2009, hotel operating costs for the Best Western Wayside Inn and the Capri Centre increased by $14,267,244, while the operating expenses of the other hotels decreased by a net amount of $880,524.

Operating Income and Profit Margin

Operating Income and Profit Margin	Operating Income Amount			Operating Profit Margin	
	Year Ended			Year Ended	
	Dec 31 2009	Dec 31 2008	Increase/ (Decrease)	Dec 31 2009	Dec 31 2008
Fort McMurray	$ 12,244,411	$ 20,721,031	$ (8,476,620)	50 %	61 %
Temple Gardens & Chateau Nova	4,381,770	5,481,122	(1,099,352)	28 %	33 %
Best Western Wayside Inn	1,887,623	1,559,009	328,614	30 %	32 %
Sub-total	18,513,804	27,761,162	(9,247,358)	40 %	50 %
Capri Centre	5,614,206	(18,472)	5,632,678	30 %	(18)%
Total portfolio	$ 24,128,010	$ 27,742,690	$ (3,614,680)	37 %	50 %
Trust Operations	452,766	894,511	(441,745)		
Total Operating Income	$ 24,580,776	$ 28,637,201	$ (4,056,425)		

During 2009, total hotel revenues increased by $9,424,692 or 18%, while hotel operating costs increased by $13,386,720 or 48%. Total hotel revenues includes all of the revenue of the Trust, except for $452,766 of interest and other income which pertains to Trust "operations". As the operating cost increases exceeded the revenue increases, the operating income for the entire hotel portfolio decreased by $3,614,680 or 13% during 2009.

As disclosed in the preceding chart, the profit margin of the hotel portfolio decreased from 50% to 37% in 2009. The most significant change in the operating profit margin occurred in the Fort McMurray hotel portfolio, with the profit margin decreasing from 61% during 2008 to 50% during 2009. In addition, the Capri Centre contributed approximately $5.6 Million of incremental operating income during 2009, however the overall profit margin of the hotel was comparatively low at 30%. Approximately 77% of the revenue from the Capri Centre is generated from food, beverage and retail liquor sales which has a much lower profit margin than the profit margin associated with room revenues. The decrease in the profit margin of the hotel portfolio in Fort McMurray, combined with the change in the overall revenue mix which resulted from the Capri Centre, were the main factors that contributed to the decrease in the overall profit margin of the hotel portfolio in 2009.

Change in Marketable Equity Securities

As of December 31, 2008, Temple REIT's investment in marketable equity securities amounted to $1,603,921, of which $1,597,463 or 99.6% was invested during 2008. The marketable equity securities consist of trust units in two Canadian hotel REIT's. As of December 31, 2009, the market value of the units was $303,450, compared to a market value of $665,550 as of December 31, 2008.

Investments in marketable equity securities are recorded at fair value. Accordingly, the year end carrying value of the trust units was reduced by $288,375 in 2009, compared to a significantly higher reduction in 2008 of $881,797. The reduction in the carrying value, is net of distributions received on the securities.

The reduction in the carrying value of the marketable equity securities serves to reduce the income of the Trust. Increases in the carrying value are recorded as income. The change in the value of the marketable equity securities is a non-cash transaction, and does not affect the cash from operating activities of the Trust.

Finance Expense

Total Finance Expense

The majority of the financing expense of Temple REIT pertains to long-term debt. During 2009, finance expense in regard to long-term debt accounted for approximately 80% of the total finance expense of the Trust.

Financing expense encompasses interest expense on long-term debt and convertible debentures, defeasance mortgage interest, the accretion of the debt component of the convertible debentures and the convertible mortgage loan, as well as amortization charges for transaction costs. Accretion on debt, defeasance mortgage interest and amortization charges for transaction costs are non-cash expenses. During 2009, the "non-cash" component of financing expense represented 10% of the total finance expense.

Analysis of Financing Expense

	Year Ended December 31		Increase/
	2009	2008	(Decrease)
Long-term Debt			
Interest on long-term debt	$ 11,540,203	$ 8,737,170	$ 2,803,033
Accretion on the debt component of convertible mortgage	35,490	-	35,490
Amortization of transaction costs	670,424	689,460	(19,036)
Subtotal	12,246,117	9,426,630	2,819,487
Defeasance Loan			
Interest	280,129	336,266	(56,137)
Amortization of transaction costs	41,389	37,752	3,637
Total - mortgage loans	321,518	374,018	(52,500)
Debentures			
Interest on convertible debentures	2,108,743	1,787,893	320,850
Accretion of debt component	632,346	534,606	97,740
Amortization of transaction costs	212,707	158,085	54,622
Total - debentures	2,953,796	2,480,584	473,212
Total - financing expense	$ 15,521,431	$ 12,281,232	$ 3,240,199

Interest Expense on Long-term Debt and Convertible Debentures

The cash component of finance expense is comprised of interest expense on long-term debt and convertible debentures.

Long-term Debt

Interest expense on long-term debt increased by $2,803,033 or 32% during 2009, compared to 2008. The mortgage loan debt associated with the acquisition of the Capri Centre and the completion of the Merit Hotel expansion account for approximately 62% and 25% of the increase, respectively. The remainder of the increase is mainly attributable to the mortgage loan debt associated with the acquisition of the Best Western Wayside Inn and the increase in the interest rate on the second mortgage loan of the Clearwater Suites hotel.

Convertible Debentures

Interest expense on convertible debenture debt increased by $320,850 or 18% during 2009, compared to 2008. The increase reflects incremental interest in 2009 related to the 8.5% Series B convertible debenture offering of $30 Million in April 2008, largely offset by the conversion of $11,914,200 of the 7.5% Series A convertible debentures in 2008 and the conversion of $10,033,900 of the 8.5% Series B Debentures between April 9, 2008 and December 31, 2008, as well as incremental interest related to the 8.75% senior secured convertible debenture offering of $15 Million in November 2009.

Additional information regarding the mortgage loans and convertible debentures of the Trust is provided in the section of this report entitled "Capital Structure".

Trust Expense

Analysis of Trust Expenses

	Year Ended December 31		
	2009	2008	Increase/ (Decrease)
Professional and legal fees	$ 201,279	$ 301,523	$ (100,244)
TSX and other reporting/filing fees	113,070	104,365	8,705
Other administrative costs	377,970	193,429	184,541
Shelter asset management fees (1)	17,392	24,857	(7,465)
Sub-total	709,711	624,174	85,537
Unit based compensation	-	109,304	(109,304)
Total - trust expense	$ 709,711	$ 733,478	$ (23,767)

(1) The asset management fees paid to Shelter are apportioned between Operating Expenses and Trust Expense.

General

The trust expense of Temple REIT consists of professional and legal fees, general administrative expenses related to overall Trust expenses, unit-based compensation expense, regulatory and filing fees charged by the TSX Venture Exchange and a small portion of the asset management fees of Shelter (i.e. asset management fees related to the gross revenue from general Trust operations). As previously discussed, the majority of asset management fees are included in hotel operating costs.

Trust expense decreased by $23,767 or 3% during 2009, compared to 2008. The decrease mainly reflects a decrease in professional and legal fees and unit-based compensation expense, partially offset by an increase in other administrative costs. A significant portion of the increase in administrative costs and the decrease in unit-based compensation expense is directly related to a change in the compensation package for the independent Trustees as outlined below.

Trustee Compensation

Effective January 1, 2009, the Trust implemented a more direct compensation package for the independent Trustees, whereby specific fees were established for the independent Trustees for serving on the Board, acting as a Committee Chair, and attending meetings. The total fees for 2009 amounted to $145,079.

During 2009, Temple REIT also adopted a Deferred Unit Plan, pursuant to a resolution which was approved at the 2009 Annual and Special Meeting of the Unitholder. Under the Deferred Unit Plan, Trustees, officers, employees and consultants may elect to have their annual compensation paid in the form of deferred units. In general terms, the number of deferred units granted is determined by dividing the amount of the compensation by the market value of the trust units, as of the date on which the compensation is payable.

During 2009, 18,288 deferred units were issued to Trustees under the Deferred Unit Plan, at weighted average market value of $2.73 per unit, representing a total value of $51,029 or 35% of the total Trustees fees of $145,079. Trustee fees are reflected in "other administrative costs".

In 2008, the Trustees and other individuals involved in the operation of Temple REIT received indirect compensation in the form of unit options, which were granted under the Unit Option Plan. In total, the fair value of the unit options which were granted by the Trust in 2008 was $109,304, all of which is reflected in "unit-based compensation expenses".

Additional information regarding the Unit Option Plan and Deferred Unit Plan are disclosed in note 17 and note 18 of the 2009 financial statements of Temple REIT.

Amortization

During 2009, amortization charges increased by $1,481,187, compared to 2008. The increase in amortization expense mainly reflects incremental amortization charges related to the acquisition of the Capri Centre and the expansion of the Merit Hotel.

COMPARISON TO PRIOR QUARTER

Analysis of Net Income - Q4 2009 vs. Q3 2009

	Three Months Ended		Increase (Decrease)
	Q4	Q3	Amount
Hotel revenue			
Room	$ 9,399,757	$ 10,176,999	$ (777,242)
Other	6,161,698	4,842,004	1,319,694
Total hotel revenue	15,561,455	15,019,003	542,452
Interest and other income	562,267	620,075	(57,808)
Total revenue	16,123,722	15,639,078	484,644
Hotel operating expenses	10,674,835	9,786,627	888,208
Operating income	5,448,887	5,852,451	(403,564)
Finance expense	4,207,372	4,092,162	115,210
Trust expense	220,109	65,302	154,807
Amortization	1,728,857	1,639,661	89,196
	(707,451)	55,326	(762,777)
Change in marketable securities	(1,350)	(196,275)	194,925
Income taxes	(126,892)	39,262	(166,154)
Net income (loss)	$ (581,909)	$ (180,211)	$ (401,698)

As disclosed in the preceding chart, the loss of Temple REIT, before taxes and the change in value of marketable equity securities, increased by $762,777 during the fourth quarter of 2009, compared to the third quarter of 2009. The increase mainly reflects a decrease in operating income and, to a lesser extent, an increase in financing, trust and amortization expenses.

During the fourth quarter of 2009, operating income decreased by $403,564 or 7%. As disclosed in the chart, "other" hotel revenue increased by $1,319,694, which offset the increase in hotel operating costs of $888,208. The increase in "other" hotel revenue and the increase in hotel operating expenses is mainly attributable to the operations of the Capri Centre. The decrease in "room" hotel revenue of $777,242 is mainly due to a decrease in hotel revenue from the Fort McMurray hotel portfolio.

As disclosed in the following chart, the RevPar of the hotel portfolio was $81.42 per room during the fourth quarter of 2009, compared to $92.95 per room during the third quarter of 2009. The decrease in RevPar reflects an 15% decrease in RevPar for the Fort McMurray portfolio and a 9% decrease in RevPar at the other hotels.

Room Revenue Statistics

	Three Months Ended					
	Q4			Q3		
	Occ	ADR	RevPar	Occ	ADR	RevPar
Fort McMurray	46 %	$ 184.36	$ 84.70	51 %	$ 196.07	$ 99.58
Temple Gardens & Chateau Nova	63 %	$ 152.86	$ 96.05	73 %	$ 151.22	$ 109.76
Best Western Wayside Inn	49 %	$ 126.75	$ 62.07	60 %	$ 125.91	$ 75.42
Subtotal	51 %	$ 167.60	$ 84.71	57 %	$ 172.73	$ 99.10
Capri Centre	41 %	$ 133.64	$ 55.15	34 %	$ 129.10	$ 43.72
Overall portfolio	50 %	$ 164.45	$ 81.42	55 %	$ 169.73	$ 92.95

In comparison to the third quarter of 2009, financing expense increased by $115,210 or 3% during the fourth quarter of 2009. The increase mainly reflects the incremental interest charges related to the 8.75% senior secured convertible debenture debt in November 2009, partially offset by a reduction in interest charges associated with lump-sum debt repayments during the last four months of 2009. Lump-sum debt repayments during the last four months of 2009 include the repayment of the $10 Million second mortgage loan on Clearwater Suites and the repayment of $7 Million of principal on the 12% mortgage loan for the Merit Hotel.

The fourth quarter increase in trust expense of $154,807 mainly reflects an increase in professional fees, administrative costs, and trustee's fees. The fourth quarter increase in amortization charges of $89,196 is mainly due to the expansion of the Merit hotel expansion.

ANALYSIS OF CASH FLOWS

Operating

	Year Ended December 31		
	2009	2008	Increase/ (Decrease)
Total revenue	$65,811,591	$56,481,296	$ 9,330,295
Hotel operating costs	41,230,815	27,844,095	13,386,720
Operating Income	24,580,776	28,637,201	(4,056,425)
Financing expense	15,521,431	12,281,232	3,240,199
Non-cash component of financing expense	(1,592,356)	(1,419,903)	(172,453)
Cash component of financing expense	13,929,075	10,861,329	3,067,746
Trust expense	709,711	733,478	(23,767)
Unit-based compensation	(51,029)	(109,304)	58,275
Cash component of trust expense	658,682	624,174	34,508
Current income taxes	213,530	616,191	(402,661)
Cash provided by operating activities, before changes in non-cash operating activities	9,779,489	16,535,507	(6,756,018)
Changes in non-cash operating items	1,759,824	1,158,837	600,987
Cash provided by operating activities	$11,539,313	$17,694,344	$ (6,155,031)

Cash from Operating Activities

During 2009, Temple REIT generated cash from operating activities of $11,539,313, compared to $17,694,344 during 2008. After excluding changes in non-cash operating items, cash from operating activities decreased by approximately $6,756,018 during 2009, compared to 2008. The decrease mainly reflects a decrease in operating income and an increase in the cash component of finance expense.

The cash component of finance expense is comprised of interest on long-term debt and convertible debentures.

Distributions and Distributable Income

Distributions

The distributions of Temple REIT are established at the discretion of the Trustees.

In March 2009, Temple REIT announced a reduction in the total distribution for 2009 and a change from a monthly distribution policy to a quarterly distribution policy, commencing in the second quarter of 2009. In total, Temple REIT paid a distribution of $0.50 per unit in 2009, comprised of the three distributions which were paid in the second, third and fourth quarter of 2009, in the combined amount of $0.30 per unit, plus the distributions of $0.10 per unit which were paid for January 2009 and February 2009. The reduction in the total distribution was necessitated as a result of the decrease in operating cash flows.

In total, declared distributions of Temple REIT amounted to $6,410,009 in 2009, compared to $12,931,226 in 2008.

Distributable Income

Distributable income is a financial measurement which is commonly used to assess the cash distribution capabilities and cash flows of investment trusts and, as such, management believes that the disclosure of distributable income provides useful information to investors. Distributable income does not have any standardized meaning prescribed by GAAP and, therefore, the method that is used by Temple REIT for calculating distributable income may not be comparable to similar measures presented by other issuers. The most directly comparable GAAP measurement of the cash flows of Temple REIT is "cash from operating activities", as disclosed in the Consolidated Statement of Cash Flows in the financial statements. Accordingly, a reconciliation between cash from operating activities and distributable income is provided in the chart below.

Distributable income does not represent the amount of cash which is available for distribution. As disclosed in the discussion of "capital requirements" in the following sections of this report, Temple REIT requires an ongoing source of cash to fund mortgage loan principal payments and capital expenditures, prior to the funding of distributions.

As disclosed in the chart, the distributable income of Temple REIT is equal to cash provided by operating activities, net of changes in non-cash operating items, after deducting a reserve for the replacement of furniture, fixtures and equipment and capital improvements ("FF&E Reserve"). The reserve represents 3.5% of the gross revenue of the Trust.

Changes in non-cash operating items are excluded from the calculation of distributable income as non-cash operating items are subject to significant temporary fluctuations which are typically reversed over time, mainly due to timing differences in accounts receivable and accounts payable.

Reconciliation Between Distributable Income and Cash From Operating Activities

	Year Ended December 31	
	2009	2008
Net cash from operating activities, per Statement of Cash Flow	$ 11,539,313	$ 17,694,344
Add/Deduct:		
Changes in non-cash operating items	(1,759,824)	(1,158,837)
FF&E Reserve	(2,303,406)	(1,976,845)
Distributable income	$ 7,476,083	$ 14,558,662
Distributions declared	$ 6,410,009	$ 12,931,226
Excess of distributable income over distributions declared	$ 1,066,074	$ 1,627,436
Distributable income - Per unit		
- basic	$0.58	$1.27
- diluted	$0.58	$0.97

During 2009, the distributable income of Temple REIT was $7,476,083 or $0.58 per unit, compared to $14,558,662 or $1.27 per unit during 2008. On a percentage basis, the distributions declared during 2009 are equal to 86% of distributable income, compared to 89% during 2008. The change in the distribution payout percentage reflects a reduction in distributable income as well as a reduction in the amount of distribution declared.

Funds From Operations ("FFO")

FFO is a non-GAAP measurement of the cash generating abilities of an entity which is widely used by the real estate industry. As disclosed in the following chart, the FFO of Temple REIT was $8,187,133 or $0.64 per unit during 2009, compared to $15,115,604 or $1.31 per unit during 2008.

The FFO calculation is in accordance with the recommendations of the Real Property Association of Canada ("RealPac"). Readers are cautioned that the method which is used by Temple REIT for calculating FFO may differ from other issuers' methods and accordingly, may not be comparable with measures used by other issuers.

Funds from Operations

	Year Ended December 31		Increase/
	2009	2008	(Decrease)
Net income	$ 904,278	$ 8,708,263	$ (8,888,474)
Add:			
Future income taxes	384,640	338,616	(536,230)
Unit-based compensation	51,029	109,304	(88,106)
Change in value of marketable securities	288,375	881,797	(685,522)
Amortization	6,558,811	5,077,624	(3,437,963)
Funds from operations	$ 8,187,133	$ 15,115,604	$ (13,636,295)
Funds from operations - Per unit			
- basic	$0.64	$1.31	
- diluted	$0.64	$1.01	

Financing Activities

As disclosed in the Consolidated Statements of Cash Flows in the audited financial statements, the financing activities of Temple REIT resulted in a net cash outflow of $12,852,611 during 2009. Financing activities consist primarily of distributions and transactions related to mortgage loan and convertible debenture debt financing, including the associated transaction and issue costs.

Details regarding the convertible debenture debt, mortgage loans payable and distributions of Temple REIT are provided in other sections of this report.

Transaction/Issue Costs

During 2009, Temple REIT incurred transaction costs of $1,442,759 of which $431,682 pertain to mortgage loan financing and $1,011,077 pertain to convertible debenture debt financing. Unit issue costs of $196,376 were also incurred during 2009 most of which pertains to convertible debenture debt financing.

Investing Activities

As disclosed in the Consolidated Statements of Cash Flows in the audited financial statements, the investing activities of Temple REIT resulted in a net cash inflow of $5,889,922 during 2009. Investment activities include disbursements of $2,321,511 in regard to additions to property and equipment and proceeds of $6,000,000 in regard to the collection of the mortgage loan receivable. Other investment activities included proceeds from expropriated land, changes in deposits on potential acquisitions and cash in escrow, transactions related to marketable equity securities and net lease payments from the investment in the Moose Jaw Casino.

Additions to Property and Equipment

The cash outflow of $2,321,511 in regard to additions to property and equipment, as disclosed in the Consolidated Statements of Cash Flows, consists of a net cash outflow of $1,266,440 in regard to the Merit Hotel expansion and $1,055,071 of other expenditures, the majority of which represent upgrades to the Best Western Wayside Inn and Temple Gardens Mineral Spa.

The net cash outflow for the Merit Hotel expansion consists of expenditures of $19,806,440, net of the mortgage loan financing of $18,540,000.

Expropriated Land

During 2009, the Trust received a cash payment of $811,615 representing the fair market value of a parcel of land which was expropriated from the Capri Centre by the City of Red Deer. As a result, the cost of the land at the Capri Centre has been reduced by $811,615.

Marketable Securities

During 2009, the net cash inflow from the investment in marketable securities was $67,267, comprised of distributions received in the amount of $73,725, less $6,458 expended on the purchase of additional marketable securities.

Cash Flow Summary

The net cash inflow from operating, financing and operating activities during 2009 was $4,576,624. After providing for the opening cash balance of $2,824,818, Temple REIT completed 2009 with a cash balance of $7,401,442.

CAPITAL RESOURCES AND LIQUIDITY

Capital Structure

Capital Structure

	December 31 2009	December 31 2008
Long-term debt - principal amount	$ 170,051,865	$ 171,355,573
Convertible debentures - face value	37,330,600	22,430,600
Equity raised - trust units (net of issue costs)	62,491,116	62,590,168
Total capitalization	$ 269,873,581	$ 256,376,341

Trust units:
Authorized - unlimited
Issued
December 31, 2009 - 12,825,352
April 26, 2009 - 12,825,352

Long-Term Debt

December 31, 2009 - $170,051,865
December 31, 2008 - $171,355,573

The long-term debt of Temple REIT consists primarily of mortgage loans which are secured by specific hotel properties. In total, mortgage loans represent 98% of the total long-term debt as of December 31, 2009. The remaining portion of the long-term debt consists almost entirely of a loan which was obtained in 2002 in order to fund the development of the casino complex at the Temple Gardens hotel.

Long-term Debt Transactions

The balance of long-term debt, as of December 31, 2009, excluding transaction costs, decreased by $1,303,708, compared to the balance as of December 31, 2008. The decrease consists of the following transactions:

(i) $18.54 Million of mortgage loan debt in regard to the expansion of the Merit Hotel;

(ii) $3 Million of additional debt in regard to the upward refinancing of the Temple Gardens hotel;

(iii) the paydown of the $7 Million related to the Merit Hotel expansion;

(iii) the repayment of the $10 Million Clearwater second mortgage loan;

(iv) the repayment of $200,000 Blanket second mortgage loan; and

(v) $5,643,708 of regular monthly mortgage loan principal payments.

Interest-Only Loans

The acquisition of Clearwater Suites in March 2007 encompassed a 6%, interest-only second mortgage loan of $10 Million, with a maturity date of February 1, 2010. On August 1, 2009, the interest rate increased to 20%. On September 7, 2009, the loan was reduced to a balance of $3.8 Million. The remaining balance was paid on November 27, 2009.

Blanket Second Mortgage Loan

At December 31, 2008, the long term debt of Temple REIT included a $200,000 blanket second mortgage loan at an interest rate of 11.25%. The loan was repaid in full in 2009.

Debt Summary

A summary of interest rates and debt ratios for the mortgage loan portfolio is provided in the following chart.

Long-term Debt Summary

	2009				2008			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Weighted average interest rate of long-term debt	6.51%	6.96%	6.34%	6.34%	6.34%	6.43%	6.42%	6.55%
Ratio of mortgage loans payable, compared to:								
Acquisition cost of property portfolio	63%	66%	67%	68%	68%	68%	62%	72%
Appraised value of property portfolio	54%	57%	57%	57%	58%	59%	54%	62%
Ratio of mortgage loans payable and convertible debenture debt (at face value), compared to acquisition cost of property portfolio	78%	76%	76%	77%	77%	79%	74%	79%

Convertible Debentures

The following chart summarizes the convertible debenture offerings of Temple REIT.

Analysis of Debenture Conversions

Issue Date/Maturity Date	Series	Interest Rate	Amount Issued	Repayments/Unit Conversions Year Ended December 31, 2009	Repayments/Unit Conversions As of December 31, 2008	Net amount Outstanding December 31, 2009
Feb. 15/07/Mar. 31/12	A	7.50 %	$ 15,680,000	$ -	$ (13,215,500)	$ 2,464,500
Apr. 8/08/Apr. 30/13	B	8.50 %	30,000,000	(100,000)	(10,033,900)	19,866,100
Nov. 27/09/Nov. 30/14	S*	8.75 %	15,000,000	-	-	15,000,000
Face value			$ 60,680,000	$ (100,000)	$ (23,349,400)	37,330,600
Net accumulated accretion						1,033,986
Unamortized transaction costs						(1,871,277)
Book value, December 31, 2009						$ 36,493,309

* Referenced in the TREIT Financial Statements as Senior Secured Convertible Debentures.

Debenture Conversions

As disclosed in the preceding chart, debenture conversions have resulted in a $13,215,500 reduction in the face value of the Series A debentures and a $10,133,900 reduction in the Series B debentures, as of December 31, 2009. The debenture conversions have served to increase the cash outflow in regard to distributions and decrease the cash outflow in regard to debenture interest payments. Specifically, the debenture conversions served to reduce interest expense by $1,049,805 in 2008, in comparison to the amount of interest expense which would have been payable based on the original face value of the debentures, while the increase in distributions associated with the debenture conversions was $2,768,456 in 2008. In summary, the net cash outflows of Temple REIT were $1,718,651 higher in 2008 as a result of the debenture conversions.

During 2009, the impact of debenture conversions on the cash flows of the Trust changed significantly as a result of the reduction in distributions per unit. Specifically, based on total debentures conversions as of December 31, 2009, the interest expense of the Trust was $1,746,098 lower and distributions were $1,824,767 higher in comparison to the amounts which would have been payable based on the original face value of the debentures.

Debt and Equity Components

In accordance with generally accepted accounting principles, the total amount of convertible debentures, as disclosed in the financial statements, is divided into debt and equity components based on the present value of future interest and principal payments. The amount by which the total present value exceeds the face value of the convertible debentures is referred to as "accretion". The accretion of the debt component, which serves to increase the carrying value of the debt component, is included in financing expense. As accretion is a "non-cash" transaction, the accretion of the debt component is added back for purposes of calculating operating cash flows and distributable income.

The allocation of the debt and equity component of the convertible debentures is provided in note 11 of the financial statements of Temple REIT for 2009.

Trust Units

The following is a summary of the units which have been issued by TREIT as of December 31, 2009.

Issue Date	Description	Units Issued	Equity Raised
Balance, January 1, 2009		12,812,019	$ 62,590,168
January 1 - December 31, 2009	Exercise of convertible debentures	13,333	85,597
	Equity component of convertible debentures converted	-	16,357
	Issue costs	-	(201,006)
Balance, December 31, 2009		12,825,352	$ 62,491,116

Deferred Unit Plan

Temple REIT adopted a Deferred Unit Plan in 2009, under which Trustees, officers, employees and consultants may elect to have their annual compensation paid in the form of deferred units. As previously disclosed, 18,288 deferred units were issued to Trustees under the Deferred Unit Plan during 2009, with a deemed market value of $51,029.

Unit Options

Pursuant to the Unit Option Plan, the Trust may grant unit purchase options to the Trustees, Directors and Senior Officers of TREIT and to other individuals who are employed or retained by the Trust to perform specific duties, provided that the number of units reserved for issuance will not exceed 10% of the issued and outstanding units. The unit options are exercisable for a maximum period of five years from the date on which the unit options are granted.

During 2009, Temple REIT did not issue any options under the Unit Option Plan.

On January 12, 2010, Temple REIT issued a total of 80,000 incentive options to purchase units at a price of $3.01 per unit. As the options were exercisable immediately, the estimated fair value of the options, in the amount of $116,370, was expensed in the first quarter of 2010 as "unit compensation" expense.

Additional details of the Deferred Unit Plan and Unit Options Plan are disclosed in note 17 and note 18 of the 2009 financial statements of Temple REIT.

Other Assets and Liabilities

Accounts Receivable

As of December 31, 2009, "Accounts receivable", as disclosed on the balance sheet of Temple REIT, amount to $2,150,209. The accounts receivable consist primarily of contractual commercial accounts.

Accounts Payable and Accrued Liabilities

As of December 31, 2009, "Accounts payable and accrued" liabilities on the balance sheet of Temple REIT, amount to $4,570,013. The accounts payable and accrued liabilities consist primarily of normal trade payable and accrued wages payable.

Defeasance Assets and Liability

The purchase of the Merit/Nomad hotels encompassed the acquisition of the bare trustee company which held title to the properties. The debt of the bare trustee company included a loan with Computershare Trust Company of Canada of $3,690,806. As the loan could not be discharged on closing due to the nature of the loan security, the loan was defeased. In this regard, the bare trustee company effectively nullified the loan by placing sufficient Government of Canada bonds in escrow to offset the debt obligations. The fair value of the bonds was $4,151,677.

The debt of the bare trustee company is disclosed on the balance sheet of Temple REIT as a "defeased liability". The Government of Canada bonds in escrow are disclosed as "defeasance assets".

Subsequent to the acquisition of Merit/Nomad hotel properties, the name of the bare trustee company was changed to TREIT Holdings 3 Corporation.

Capital Requirements

General

Temple REIT requires an ongoing source of cash to fund regular principal payments on long-term debt, "non-financed maintenance" capital expenditures and distributions. Cash from operating activities effectively represents the initial source of funding for these expenditures. During 2009, cash from operating activities amounted to $11,539,313, while regular monthly mortgage payments, distributions and capital expenditures, excluding the Merit Hotel expansion, amounted to $13,108,788. The "shortfall" of $1,569,475 was effectively funded from the existing cash resources of the Trust.

Temple REIT also requires capital for other investing and financing activities, including the funding of the equity component of new property acquisitions and lump-sum repayments of mortgage loan debt. The repayment of convertible debenture debt is also a funding consideration from a longer term perspective.

Long-term Debt and Lease Payments

A summary of the long-term debt maturities and operating lease obligations of Temple REIT, is provided in the following chart.

Summary of Contractual Obligations

Payments Due By Period	Total	1 year	2 - 3 years	4 - 5 years	> 5 years
Long-term debt	$170,487,550	$ 51,269,579	$ 62,177,054	$ 53,916,835	$ 3,124,082
Operating leases	1,548,002	489,530	920,472	138,000	-
Total	$172,035,552	$ 51,759,109	$ 63,097,526	$ 54,054,835	$ 3,124,082

The total amount of long-term debt due in 2010 of $51,269,579 is comprised of the following:

- regular repayments of principal in the estimated amount of $4,310,764; and
- principal due of $46,958,815 on loans which mature during 2010, of which $33,488,815 matures during the first six months of 2010. The entire amount of $33,488,815 represents the balance due at the maturity date of April 1, 2010 in regard to the first mortgage loan of the Clearwater hotel.

Management intends to renew or refinance the principal amounts due, under similar terms and conditions. Renewal terms for the first mortgage loan of the Clearwater hotel have been finalized. In regard to the 12% mortgage loan on the Merit Hotel expansion ($7.04 Million, due on October 31, 2010), management believes that a lower cost replacement mortgage loan can be obtained or that interim financing can be arranged at a similar rate.

Capital Expenditures

Hotel upgrades at the Capri Centre are tentatively scheduled for 2010. The Trust has arranged $5 Million of additional first mortgage financing for capital expenditures at the Capri Centre. The "pre-financed" capital expenditures are expected to commence in 2010.

Property Acquisitions

There were no deposits on potential acquisitions as of December 31, 2009.

Sources of Capital

Existing Cash

As of December 31, 2009, the cash balance of Temple REIT was $7.4 Million, while the working capital balance was $4.4 Million, excluding the current portion of long-term debt and the current portion of the defeased asset and defeased liability.

Cash from Operating Activities

Based on its existing debt structure, Temple REIT will experience an increase in interest costs in 2010. In the absence of an improvement in hotel market conditions in Fort McMurray, the level of net operating income will likely not be sufficient to offset the increase in interest costs, and the net result would be a decrease in cash from operating activities in 2010. The ability of Temple REIT to achieve a cash inflow from operating activities in 2010 which is comparable to the cash inflow in 2009, is largely dependent on an improvement in hotel market conditions in Fort McMurray.

Additional Mortgage Loan Financing

The upward refinancing of the mortgage loan debt of the hotel portfolio also represents a potential source of financing for capital expenditures.

Marketable Equity Securities

As of December 31, 2009, Temple REIT owns marketable equity securities with a fair value of $303,450. The securities represent a potential source of capital.

HOTEL MANAGEMENT

Temple REIT has retained Atlific to manage all of the hotels in its existing property portfolio. The terms of the five year management contracts for each of the hotels are provided below.

		Base Management Fee		
	Expiry Date	Year 1	Year 2	Year 3 to Year 5 % of Gross Revenues
Temple Gardens	Sept. 30, 2011	$175,000	$200,000	2.5%
Chateau Nova	Mar. 22, 2012	$45,000	$65,000	2.5%
Clearwater Suites	Mar. 31, 2012	$135,000	$200,000	2.0%
Merit Hotel & Franklin Suites	Apr. 30, 2012	$125,000	$150,000	2.0%
Nomad Hotel and Suites	Apr. 30, 2012	$125,000	$150,000	2.0%
Vantage Inn & Suites	Jan. 31, 2013	$125,000	$150,000	2.0%
Best Western Wayside Inn	May 31, 2013	$175,000	$187,750	2.5%
Capri Centre	Dec. 31, 2013	$305,000	$305,000	2.5%

In addition to the base management fee, the management agreement for each hotel also provides for an incentive management fee. The incentive management fee is equal to 10% of the amount by which the net operating income of the hotel exceeds the budgeted net operating income commencing in the second year after acquisition of the hotels.

Atlific received $1,463,979 in base management fees during 2009.

RELATED PARTY TRANSACTIONS

Shelter Canadian Properties Limited ("Shelter")

Asset management services are provided to Temple REIT by Shelter, pursuant to the terms of an Asset Management Agreement. The Asset Management Agreement also requires Shelter to act as administrator of the Trust by providing accounting and human resource services, office space and equipment and the necessary clerical and secretarial personnel for the administration of the day-to-day activities of Temple REIT.

The Asset Management Agreement provides for Shelter to receive an asset management fee equal to 1.5% of the gross revenues of the hotel properties and assets of the Trust and to be reimbursed for all expenses incurred in connection with fulfilling the role of Administrator, including third party costs.

During 2009, Shelter earned asset management fees of $997,779.

Mr. Arni Thorsteinson, the President and Chief Executive Office of Temple REIT and a Trustee, is the Director and President of Shelter and the Director and President of the parent corporation of Shelter, 2668921 Manitoba Ltd.

OPERATING RISKS AND UNCERTAINTIES

An investment in units of Temple REIT encompasses the risks which are inherent in the ownership and operation of a portfolio of hotel properties, as well as the normal risks which are associated with an investment in a real estate investment trust.

An investment in Temple REIT encompasses a number of risks including liquidity, financing, environmental and diversification risks; the risks associated with real property ownership franchised hotels, potential labour disruptions, competition, land leases, interest rate fluctuations and the operation of the Temple Gardens hotel; the risk of general uninsured losses and the failure to maintain mutual fund trust status, as well as restrictions on redemptions, investment concentration, the potential the lack of available growth opportunities, acquisition risk, potential Unitholder liability, potential conflicts of interest, uncertainties regarding the market price of Units, the legal rights attaching to Units, other tax related risk factors and the potential dilution arising from the issue of additional Units. For a summary of

certain additional key risks to Temple REIT, see the Annual Information Form which is available at www.sedar.com.

The key risks include the following:

Hotel Industry

Specific risks associated with hotel ownership and operations include:

- cyclical downturns arising from changes in general and local economic conditions;

- changes in the level of business and commercial travel and tourism;

- increases in the supply of accommodations in local markets which may adversely affect the results of operations;

- competition from other hotels;

- the recurring need for renovation, refurbishment and improvement of hotel properties;

- changes in wages, prices, energy costs and construction and maintenance costs that may result from inflation, government regulations, changes in interest rates or currency fluctuations;

- availability of financing for operating or capital requirements;

- seasonal fluctuations in hotel operating income produced throughout the year;

- increases in operating costs due to inflation which may not necessarily be offset by increase room rates;

- increases in expenses of travel, particularly automotive travel; and

- other factors, including medical concerns related to travelling to Canada, acts of terrorism, natural disasters, extreme weather conditions and labour shortages, work stoppages or disputes.

Current Economic Conditions

Canadian real estate investment trusts are subject to risks generally incidental to the Canadian real estate, credit, capital and financial markets. The global recessionary economic conditions and the global financial liquidity crisis that existed in 2009 and are continuing into 2010, have resulted in persistent interruptions in the credit and capital markets, devaluations of assets directly or indirectly linked to the Canadian real estate finance markets and the concurrent elimination of long and short-term liquidity from the capital markets. These conditions have had, and we expect will continue to have, an adverse effect on Temple REIT as well as the assets Temple REIT has invested in.

Sensitivity to the global economic conditions, and their impact in Canada, may negatively affect the income received from Temple REIT's properties. Inherent illiquidity may limit Temple REIT's ability to vary its portfolio in response to changes in the global, national and/or local economic conditions and may ultimately prevent Temple REIT from implementing its acquisition and investment strategies. Increased vacancy rates and other difficulties commonly associated with recessionary economic conditions, may occur and may adversely affect the income received from Temple REIT's properties. Finally, the extent to which Temple REIT relies on debt financing and the current difficulty associated with obtaining debt financing increases the likelihood Temple REIT will either be unable to refinance existing indebtedness or result in Temple REIT receiving less favourable terms than that of existing financing arrangements.

Debt Financing Risk

Temple REIT and its Subsidiaries have incurred, and will continue to incur, indebtedness in connection with acquisitions, including by way of additional mortgage loans, vendor take-back financing, the issuance of debentures and a line of credit. A portion of the cash flow generated by hotel properties owned by Temple REIT and its Subsidiaries will be devoted to servicing such debt and there can be no assurance that Temple REIT's hotel properties will continue to generate sufficient cash flow from operations to meet the required interest and principal payments on such debt.

Temple REIT is subject to the risks associated with debt financing including the risk that cash flow from operations will be insufficient to meet required payments of principal and interest, the risk that existing debt will not be able to be refinanced or that terms of such refinancing's will not be as favourable to Temple REIT as existing debt and the risk that necessary capital expenditures for such purposes as renovations and other improvements will not be able to be financed on favourable terms or at all. In such circumstances, if Temple REIT were in need of capital to repay indebtedness in accordance with its terms or otherwise, it could be required to liquidate one or more investments in hotel properties at times which may not permit realization of the maximum return on such investments or could be required to agree to additional financing(s) on unfavourable terms. In addition, Temple REIT will be subject to the risk that its interest expense may increase on the refinancing of existing indebtedness or on any portion of its indebtedness that bears interest at floating rates if interest rates increase, which could have a material adverse effect on the results of operations of Temple REIT and its ability to make distributions. In order to minimize this risk, Temple REIT will attempt to appropriately structure the timing of the renewal of significant indebtedness on each respective hotel property in relation to the time at which mortgage indebtedness on such property becomes due for refinancing. Temple REIT expects that its financing arrangements will contain covenants that will restrict its ability to operate its business in certain ways. If Temple REIT fails to comply with the restrictions in its financing arrangements, its lenders may be able to accelerate related debt as well as any other debt to which a cross default or cross acceleration provision applies. A default could also allow creditors to foreclose, sell or realize on the property securing such debt or exercise other remedies against Temple REIT. Credit facilities also typically require repayment of funds or cash flow sweeps when certain coverage ratios are not met. In connection with its financing arrangements, Temple REIT expects that it will grant security interests over substantially all of its assets. If Temple REIT is not able to meet its debt service obligations, it risks the loss of some or all of its assets to foreclosure or sale.

The turmoil in global financial markets has significantly increased the level of uncertainty in regard to general economic conditions in Canada. Although it is not possible to predict with certainty the impact of recent events on the future operations of Temple REIT, the current level of uncertainty in the global and domestic marketplace has resulted in a more restrictive and conservative lending environment and has increased the level of debt-financing risk to Temple REIT.

As previously disclosed in this report, Temple REIT has approximately $46.96 Million of mortgage loan debt which matures during 2010, of which $40.53 Million pertains to the Fort McMurray hotel portfolio. The debt of $40.53 Million is comprised of the $33.49 Million first mortgage loan of the Clearwater hotel (due on April 1, 2010) and the $7.04 Million 12% mortgage loan on the Merit Hotel expansion (due on October 31, 2010). Renewal terms for the mortgage loan of the Clearwater hotel have been finalized. Management believes that a lower cost replacement loan can be obtained for the mortgage loan on the Merit hotel expansion or that interim financing can be arranged at a similar rate.

Interest Rate Fluctuations and Financing Risk

Financing by Temple REIT and its Subsidiaries may include indebtedness with interest rates based on variable interest rates that result in fluctuations in the cost of borrowing. Temple REIT and/or its Subsidiaries will be required to refinance its debt from time to time and, if new debt has less favourable terms than existing indebtedness, or if such refinancing cannot be obtained, there is a potential negative impact on Distributable Income.

In the low interest rate environment that the Canadian economy has experienced in recent years, leverage has enabled Temple REIT to enhance its Distributable Income. A reversal of this trend, however, could significantly affect Temple REIT's ability to meet its financial obligations. In order to minimize this risk, Temple REIT negotiates fixed-rate term debt with staggered maturities on its property portfolio. Derivative financial instruments may be utilized by Temple REIT in the management of its interest rate exposure. Temple REIT's policy is not to utilize derivative financial instruments for trading or speculative purposes. In addition, the Declaration of Trust restricts total indebtedness permitted on its portfolio.

Fluctuations in Cash Distributions

A return on an investment in Units is not comparable to the return on an investment in a fixed-income security. The recovery of the initial investment in Units is at risk, and the return on an investment in Units is based on many performance assumptions. The distributions of Temple REIT are established at the discretion of the Trustees. The actual amount of distributions depends on numerous factors, including the financial performance of the hotels in Temple REIT's portfolio, its debt covenants and obligations, working capital requirements, principal and interest payments on its indebtness, tenant allowances, leasing commissions, capital expenditures and other factors that may be beyond the control of Temple REIT. Distributions may be reduced or suspended at any time. In addition, the market value of the Units may decline if Temple REIT is unable to provide a satisfactory return to Unitholders and that decline may be significant.

Public Market Risk

It is not possible to predict the price at which Units will trade in the future and there can be no assurance that an active trading market for the Units will be sustained. The Units will not necessarily trade at values determined solely by reference to the value of the properties of Temple REIT. Accordingly, the Units may trade at a premium or a discount to the value implied by the value of the properties of Temple REIT. In addition, the market price for units may be affected by changes in general market conditions, fluctuations in the market for equity securities and numerous other factors which are beyond the control of Temple REIT, may affect the market price for the Units.

Investment in Marketable Equity Securities

Temple REIT may invest in publicly-traded securities, which are subject to all of the risks associated with such investments, including general market risks, including the potential decrease in value and volatility of financial results and dividends and/or distributions, if applicable.

As previously disclosed in this report, Temple REIT purchased equitable marketable securities in 2008 as a short-term investment of excess cash. As of December 31, 2009, the market value of the securities, net of distributions received, has decreased by $1,170,172, of which $288,375 is reflected in the operating results of the Trust during 2009.

There is a risk that the marketable equity securities will experience a further decline in value.

Concentration of Temple REIT's Portfolio in One Market

The property portfolio of Temple REIT has significant exposure to the Fort McMurray, Alberta market. Temple REIT has ten hotel properties in its real estate portfolio, six of which are located in Fort McMurray, Alberta. Based on the cost of $265,042,670 for the ten hotels, the six properties represent approximately 62% of the total acquisition cost of the portfolio.

During 2009, the six hotel properties in Fort McMurray accounted for 77% of the total revenue of the Trust and 50% of the total operating income.

Payment of Cash Distributions

In accordance with the terms of the Declaration of Trust, as amended, the distributions of Temple REIT are determined at the discretion of the Trustees. If circumstances permit, it is the intent of the Trust to distribute the greater of taxable income or 85% of distributable income each period to its Unitholders and to deduct these distributions for income tax purposes.

Changes to Tax Treatment of Trusts

Except for corporate subsidiaries of Temple REIT, no provision for income taxes is required under the current Canadian income tax legislation.

On June 22, 2007, legislation relating to, among other things, the federal income taxation of publicly traded income trusts (the "SIFT Rules") was enacted. Under the SIFT Rules, certain distributions from a "specified investment flow-through" trust (a "SIFT") will no longer be deductible in computing a SIFT's taxable income, and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. Distributions of income of a SIFT received by a Unitholder that are not deductible to the SIFT will be characterized as dividends payable to the Unitholder. Generally, distributions paid by a SIFT as a return of capital will generally not be subject to the tax.

The SIFT Rules provide that a SIFT which was publicly listed prior to November 1, 2006 (an "Existing Trust") will become subject to the tax on distributions commencing in the 2011 taxation year. However, an Existing Trust may become subject to this tax prior to 2011 if its equity capital increases beyond certain limits measured against the market capitalization of the Existing Trust at the close of trading on October 31, 2006. Based on its October 31, 2006 market capitalization, Temple REIT may increase its equity capital by $50 Million for the period November 1, 2006 to December 31, 2007, and each of the years ending December 31, 2008, December 31, 2009 and December 31, 2010 (the "Safe Harbour Limit"). To date, Temple REIT's equity capital has not increased beyond the Safe Harbour Limit.

The SIFT Rules do not apply to a "real estate investment trust" (a "Qualifying REIT") that meets prescribed conditions relating to the nature of its revenue and property (the "REIT Conditions"). Temple REIT does not currently satisfy the REIT Conditions. Accordingly, Temple REIT is subject to the SIFT Rules and, subject to earlier application if it increases its equity capital beyond its Safe Harbour Limit, Temple REIT will be subject to the tax on distributions commencing in 2011.

Relationship with Shelter and Atlific

The financial performance of Temple REIT will depend in part on the performance of Shelter in providing administrative and asset management services to the Trust, pursuant to the Services Agreement.

The financial performance of Temple REIT will also depend in part on the performance of hotel management, currently being Atlific. Temple REIT depends on Atlific for all aspects of the day-to-day management of all of its hotel properties owned at the date hereof. There can be no assurance that a suitable replacement would be found in a timely manner or at all if Atlific ceased providing services to Temple REIT.

Reliance on Key Personnel

The success of Temple REIT is highly dependent on the services of certain management personnel, including Arni Thorsteinson. The loss of the services of such personnel could have an adverse effect on Temple REIT.

Other Risks

Other risks are more fully discussed in the other regulatory filings of Temple REIT, including the 2009 Annual Information Form.

CRITICAL ACCOUNTING ESTIMATES

The application of the significant accounting policies for purposes of preparing the consolidated financial statements, in accordance with Canadian generally accepted accounting principles (GAAP), requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. The estimates are based on historical experience and on other assumptions that are believed to be reasonable under the circumstances. Under different assumptions or conditions, the actual results may differ, potentially materially, from the estimated amounts. Many of the conditions impacting the assumptions and estimates are beyond the control of management. The estimates and assumptions are evaluated on a periodic basis.

Financial statement items which encompass estimates include the following:

- amortization of property and equipment - amortization expense is based on the estimated useful life of the property and equipment;

- carrying amount of goodwill - the carrying amount of goodwill is periodically compared to its estimated fair value in order to determine if there has been any impairment in value; and

- unit-based compensation expense - unit-based compensation expense is based on the estimated fair value of the applicable units and warrants using the Black-Scholes option pricing method.

The estimates which were used for financial statement reporting purposes, for the above noted items, are not expected to change from period to period.

CHANGES IN ACCOUNTING POLICY

New Accounting Standards - Adopted January 1, 2009

On January 1, 2009, the Trust adopted CICA Handbook Section 3064 - Goodwill and Intangibles. This Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets by profit-oriented enterprises. There is no adjustment to opening equity at the beginning of the year as a result of adopting the new standard.

In January 2009, the Emerging Issue Committee (EIC) of the Canadian Institute of Chartered Accountants issued EIC-173, titled "Credit Risk and the Fair Value of Financial Assets and Liabilities", which clarifies that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and liabilities, including derivative instruments. EIC-173 is applied retrospectively without adjustment of prior periods in interim and annual financial statements for periods ending on or after January 20, 2009. The Trust adopted this recommendation in its fair value determination effective January 1, 2009. The adoption of this guideline did not impact the Trust's results of operations, financial position or cash flows.

In May 2009, the Canadian Institute of Chartered Accountants amended Section 3862, titled "Financial Instruments - Disclosures" to improve disclosures related to fair value measurements of financial instruments, including the relative reliability of the inputs used in those measurements and liquidity risk. These disclosures are effective for the Trust's December 31, 2009 annual consolidated financial statements. These amendments did not impact the Trust's consolidated financial position or results of operations.

Future Changes to Accounting Standards

International Financial Reporting Standards (IFRS)

In February 2008, the Canadian Accounting Standards Board confirmed January 1, 2011 as the date on which International Financial Reporting Standards (IFRS) will replace current Canadian accounting standards and serve as the basis for Canadian generally accepted accounting principles (Canadian GAAP).

The changeover from current Canadian GAAP to IFRS will be a significant undertaking for Temple REIT and the implementation of new accounting standards may have a material impact on the financial position and results of operation, as disclosed in the financial statements of the Trust. The Management of Temple REIT is currently reviewing the impact of the conversion to IFRS on the financial statements and accounting processes of the Trust with the objective of developing a specific plan for Temple REIT for the changeover to IFRS (the "IFRS changeover plan").

Issues to be addressed in the IFRS changeover plan include the selection of alternative accounting policies and disclosure methodologies and the determination of the impact of IFRS on the financial reporting and control systems of the Trust. As the IFRS changeover plan is developed, more detailed information regarding the key elements of the plan will be provided in the quarterly and annual reports of Temple REIT.

Business Combinations

CICA Handbook Section 1582 - Business Combinations will apply prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. CICA Handbook Sections 1601 - Consolidations and 1602 - Non-Controlling Interests will be effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. These sections replace the former CICA Handbook Sections 1581 - Business Combinations and 1600 - Consolidated Financial Statements. CICA Handbook Section 1582 establishes standards for the accounting for a business combination. CICA Handbook Section 1601 establishes standards for the preparation of consolidated financial statements. CICA Handbook section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination.

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The changeover from current Canadian GAAP to IFRS will be a significant undertaking for Temple REIT and the implementation of new accounting standards may have a material impact on the financial position and results of operation, as disclosed in the financial statements of the Trust. The conversion plan will address first time adoption and transition activities. To date, activities being undertaken as part of the conversion plan include, but are not limited to:

- Establishment of a project team with regular reporting to the Audit Committee of the Board of Trustee's;
- Ongoing training and education sessions for staff;
- Identification of internal and external resource requirements;
- Preliminary identification of the main differences between Canadian GAAP and IFRS. The following describes the key differences identified. The effect of the differences on opening equity has been identified pending the approval of accounting policy selections and first-time adoption of IFRS elections.

The following describes the key differences identified.

Property and Equipment
Property and equipment are initially recorded at cost. In subsequent years Property and equipment is can either be measured at amortized cost or fair value. Property and equipment continues to be amortized over its useful life based on the amortized cost or fair value each reporting period. The classification of Property and equipment may create more components. Under IFRS, each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. The Trust has not arrived at a definite conclusion on its option to measure property and equipment at amortized cost or fair value. A decision will be made in 2010.

Asset Impairment
Under Canadian GAAP, assets are first tested for impairment by taking undiscounted cash flows and comparing to carrying value. If the carrying value is higher, the asset is revalued using discounted future cash flows. Under IFRS, an asset is compared to its recoverable amount. The recoverable amount is the higher of discounted cash flows and the fair value less costs to sell the asset. The Trust is in the process of finalizing it impairment testing as at its opening IFRS balance sheet.

Joint Ventures
IFRS currently provides the option to choose between proportionate consolidation and the equity method when accounting for joint ventures. The International Accounting Standards Board is currently reviewing its standards for accounting for joint ventures to eliminate the option to use proportionate consolidation for jointly controlled entities. The Trust currently accounts for its investment in the Moose Jaw Casino complex property using the proportionate consolidation method.

Business Combinations
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Classification of Trust Units
Under current Canadian GAAP, trust units are presented as equity. Under IFRS, trust units may be presented as a liability when the declaration of trust requires a distribution. To continue to present trust units as equity, the Trust has amended the distribution provisions in the declaration of trust to make distributions discretionary to the Trustees.

First-time adoption of International Financial Standards
The Trust's adoption of IFRS will require the application of IFRS 1 - First-Time Adoption of International Financial Reporting Standards, which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires that an entity apply all IFRS effective at the end of its first IFRS reporting period retrospectively. However, IFRS 1 has certain exceptions and limited optional exemptions in specified areas of certain standards. The Trust has not arrived at a definite conclusion on its option under IFRS 1. A decision will be made in 2010.

Management is in the process of reviewing the impact of the above changes on the financial statements and evaluating the accounting policy alternatives for the purpose of determining the necessary changes to accounting policies, internal control procedures, disclosure control and business process.

FINANCIAL INSTRUMENTS

The financial instruments of Temple REIT consist of basic financial instruments which are typically used in the operation and ownership of hotel properties and in the operation of a real estate investment trust, including cash, term deposits, marketable equity securities, accounts receivable, accounts payable and accrued liabilities, gift certificate liabilities, mortgage loans and other long-term debt secured by the revenues or assets of hotel properties.

The fair value of the mortgage loans and other long-term debt approximates the carrying value due to the nature of the debt and the relatively short terms to maturity. The fair value of the current assets and liabilities approximates the carrying value due to the immediate or short-term nature of the instruments.

For the current assets and liabilities, the main risk is the credit risk associated with accounts receivable. The credit risk is reduced due to a diversified customer base. The risks associated with mortgage loans and long-term debt include the risk of interest rate increases for maturing loans and the risk of potential defaults in debt payments due to insufficient cash flows. In order to minimize the risk associated with potential interest rate increases, Temple REIT will stagger debt maturity dates, to the extent possible. Temple REIT attempts to minimize the risk of any defaults in debt payments through its investment and operating policies which include focusing on hotel acquisitions with a history of stable cash flows and restricting the amount of mortgage loan financing to 75% of the appraised value of the hotel properties.

TAXATION

Taxation of Temple REIT

Temple REIT qualifies as a mutual fund trust for income tax purposes, subject to the SIFT Rules, Temple REIT is generally subject to tax in Canada under the Income Tax (the "Tax Act") in respect to its taxable income each year, except to the extent such taxable income is paid or deemed to be payable to Unitholders and deducted by Temple REIT for tax purposes.

Unless determined otherwise by the Trustees, Temple REIT intends to distribute or designate all of its taxable income to the Unitholders in order to ensure that subject to the application of the SIFT Rules, Temple REIT will not be subject to income tax under Part I of the Tax Act.

Under the SIFT Rules, distributions paid by a SIFT as returns of capital will not be subject to the tax. In 2009, 100% of the distributions of Temple REIT were characterized as tax-deferred returns of capital. Management believes that it is likely that a high return of capital component would continue in the reasonably foreseeable future and that any impact of the SIFT Rules on Trust Unitholders will be significantly mitigated due to the large proportion of distributions which are expected to be a return of capital.

Taxation of Unitholders

Subject to the SIFT Rules, a Unitholder is required to include, in computing for tax purposes each year, the portion of the amount of net income and net taxable capital gains of Temple REIT paid or payable to the Unitholder in the year. The cash distributions which have been paid to the Unitholders, since the inception of Temple REIT as a real estate investment trust in 2006, have exceeded the income of Temple REIT, as calculated for income tax purposes. Distributions in excess of the taxable income of Temple REIT for the year which are allocated to a Unitholder will not be included in computing the taxable income of the Unitholder. The adjusted cost base of the units which are held by the Unitholder will, however, be reduced by the amount of distributions not included in income.

Under the SIFT Rules, should they become applicable to Temple REIT as set out above, certain distributions from Temple REIT which would otherwise have been ordinary income will be characterized as dividends in addition to being subject to tax in Temple REIT at rates similar to the combined federal and provincial corporate tax rates. Distributions to Canadian resident individuals will be deemed to be "eligible dividends", qualifying for the enhanced dividend tax credit.

Upon the disposition or deemed disposition by a Unitholder of a unit, a capital gain (or a capital loss) will generally be realized to the extent that the net proceeds of disposition of the unit exceed (or are exceeded by) the adjusted cost base of the unit. Currently, only 50% of a capital gain ("taxable capital gain") must be included in computing a Unitholders' income and 50% of a capital loss (an "allowable capital loss") may be deducted against taxable capital gains.

Under the SIFT Rules, if Temple REIT does not meet the REIT Conditions to become a qualifying REIT resulting in the tax on distributions commencing to apply to Temple REIT in 2011 (or earlier if Temple REIT increases its equity capital beyond its Safe Harbour Limit), certain distributions from Temple REIT will no longer be deductible in computing its taxable income, and it will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. However, distributions paid as a return of capital will generally not be subject to the tax.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

No changes were made to the design of the internal controls over financial reporting during the year ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, the effectiveness of the internal control system.

Readers are cautioned, however, that a control system can only provide reasonable, not absolute, assurance that the objectives of the control system are achieved. Due to the inherent limitations in all control systems, an evaluation of controls cannot provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. Inherent limitations include the possibility that the assumptions and judgments of management could ultimately prove to be incorrect under varying conditions and circumstances, or that isolated errors could prove to have a significant impact on the reliability of information.

Additionally, controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and it is not possible to provide complete assurance that a control system will succeed in achieving its stated goals under all potential future conditions.

ADDITIONAL INFORMATION

Additional information relating to Temple REIT is available on the SEDAR website at www.sedar.com. SEDAR acts as a facilitator for the electronic filing of securities information, as required by the securities regulatory agencies in Canada.

APPROVAL BY TRUSTEES

The content of the 2009 Annual Report of Temple REIT, including Schedule I, and the delivery of the report to the Unitholders have been approved by the Trustees.

TEMPLE REAL ESTATE INVESTMENT TRUST
April 26, 2010

Temple Real Estate Investment Trust
2009 Annual Report
Management's Discussion and Analysis

Schedule I
Profile of Hotel Properties

Temple Gardens Mineral Spa Resort Hotel (Acquired on October 1, 2006)
The Temple Gardens Mineral Spa Resort Hotel is located in Moose Jaw, Saskatchewan and consists of a 179 guest rooms. The hotel also features a restaurant, café, banquet and meeting rooms, gift shop, fitness room, spa treatment centre and geo-thermal mineral water pool. The spa resort is well known for its mineral-rich, geo-thermal therapeutic waters.

Chateau Nova (Acquired on March 22, 2007)
The Chateau Nova hotel property is located in Yellowknife, Northwest Territories and consists of a four-storey, 60-room hotel complex known as Chateau Nova, and a three-storey, 20-room annex, known as Chateau Nova Suites. The property offers a full range of services, including a full service restaurant, lounge, room service, meeting and conference rooms, business centre, fitness centre and spa services. Chateau Nova and Chateau Nova Suites are located across from each other on Franklin Avenue, the main street of downtown Yellowknife.

Clearwater Suites (Acquired on March 30, 2007)
The Clearwater Suites hotel complex is a four-storey, 150-room extended stay hotel complex, located in Fort McMurray, Alberta, comprised of 117 one-bedroom units, 11 two-bedroom units and 22 studio units. The property is operated as an extended stay lodging complex to accommodate oil sands and major project staff who stay in Fort McMurray for periods of one week to several months. The property also includes a 75-stall underground parkade.

Franklin Suites (Acquired on April 30, 2007)
The Franklin Suites is a five-storey, 75-room hotel located in Fort McMurray, Alberta. The hotel contains a business centre, two meeting rooms totaling approximately 850 square feet and fitness facilities. The hotel also contains provision for a restaurant/coffee shop, which is not fully developed and is currently used to serve complimentary continental breakfast.

Merit Hotel and Suites (Acquired on April 30, 2007)
The Merit Hotel is a four-storey, full service hotel located in Fort McMurray, Alberta. The hotel offers a restaurant and lounge and also includes a business centre, two meeting rooms totaling approximately 2,500 square feet, indoor pool and whirlpool and fitness facilities. A 68-room expansion of the hotel was completed in August 2009, increasing the number of rooms to 160.

Nomad Hotel (Acquired on April 30, 2007)
The Nomad Hotel is a seven-storey, full-service hotel located in Fort McMurray, Alberta, comprised of 139 rooms. The hotel offers a Keg Restaurant, cafe and pub and also includes approximately 1,200 square feet of meeting space, business centre, indoor pool and fitness facilities.

Nomad Suites (Acquired on April 30, 2007)
The Nomad Suites is a four-storey, extended stay hotel located in Fort McMurray, Alberta, comprised of 27 rooms. The hotel also includes a small area for serving complimentary breakfast. The hotel's front desk and management operations are handled through the Nomad Hotel.

Vantage Inn & Suites (Acquired on January 31, 2008)
The Vantage Inn & Suites is a four-storey hotel located in Fort McMurray, Alberta. The hotel contains 83 rooms, meeting facilities, a sports bar, business centre, fitness centre and continental breakfast area.

Best Western Wayside Inn & Suites (Acquired on June 1, 2008)
The Best Western Wayside Inn & Suites is located on the Yellowhead Highway in Lloydminster, Alberta. The six-storey hotel contains 130 rooms, banquet and conference facilities for a maximum of 450 people, licensed restaurant, cocktail lounge, liquor store, indoor swimming pool and fitness centre.

Capri Centre (Acquired on December 30, 2008)
The Capri Centre is a full service hotel, trade and conference centre located in Red Deer, Alberta. The complex includes a 14-storey hotel with 218 rooms, including 22 suites, a 53,110 square foot conference centre, three restaurants, three lounges, an outdoor, heated whirlpool and exercise room, a leased gift shop, clothing store and hair salon and a free-standing liquor store.

MANAGEMENT'S RESPONSIBILITY

The financial statements contained in the annual report have been prepared in conformity with Canadian generally accepted accounting principles and, where appropriate, reflect estimates based on management's best judgement in the circumstances. The financial information presented throughout the annual report is consistent with the information contained in the financial statements.

Scarrow & Donald LLP, the independent auditors, were appointed by the Unitholders and are responsible for auditing the financial statements and giving an opinion thereon.

The financial statements have been reviewed and approved by the Board of Trustees and the Audit Committee, which is comprised of the three independent Trustees. The Audit Committee meets regularly with management and the auditors. The auditors have full and direct access to the Audit Committee.

"Arni Thorsteinson"

Arni Thorsteinson
Chief Executive Officer

"John Liddle"

John Liddle
Chief Financial Officer

April 26, 2010

Scarrow & Donald LLP

SCARROW & DONALD LLP
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www.scarrowdonald.mb.ca

April 12, 2010

AUDITORS' REPORT

To the Unitholders of
Temple Real Estate Investment Trust:

We have audited the consolidated balance sheets of Temple Real Estate Investment Trust as at December 31, 2009 and 2008 and the consolidated statements of income and comprehensive income, equity and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2009 and 2008 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Scarrow & Donald LLP

Chartered Accountants
Winnipeg, Canada

For this communication, together with the work done to prepare this communication and for opinions we have formed, if any, we accept and assume responsibility only to the addressee of this communication, as specified in our letter of engagement.

CONSOLIDATED BALANCE SHEETS

	December 31 2009	2008
Assets		
Current assets		
Cash	**$ 7,401,442**	$ 2,824,818
Marketable securities (Note 3)	**628,208**	983,850
Accounts receivable (net of allowance for doubtful accounts of $102,057, 2008 - $120,892)	**2,150,209**	2,552,972
Inventories (Note 4)	**716,220**	562,246
Prepaid expenses	**226,402**	213,700
Mortgage receivable (Note 5)	**-**	6,610,920
Current portion of net investment in lease (Note 6)	**125,370**	116,819
Current portion of defeasance assets (Note 7)	**2,941,723**	3,505,610
	14,189,574	17,370,935
Property and equipment (Note 8)	**248,546,241**	235,055,157
Net investment in lease (Note 6)	**4,516,591**	4,641,962
Other assets (Note 9)	**952,794**	1,802,192
Goodwill	**1,608,282**	1,608,282
	$269,813,482	$260,478,528
Liabilities and Equity		
Current liabilities		
Accounts payable and accrued liabilities	**$ 4,570,013**	$ 3,841,882
Gift certificate liability	**2,132,718**	2,051,719
Income taxes payable	**135,042**	228,908
Current portion of long-term debt (Note 10)	**50,746,879**	11,132,872
Current portion of defeased liability (Note 7)	**2,834,896**	354,056
	60,419,548	17,609,437
Long-term debt (Note 10)	**118,051,239**	158,730,213
Defeased liability (Note 7)	**-**	2,834,896
Convertible debentures (Note 11)	**30,391,822**	18,078,361
Future income taxes (Note 12)	**3,712,128**	3,327,488
	212,574,737	200,580,395
Equity	**57,238,745**	59,898,133
	$269,813,482	$260,478,528

Approved by the Trustees

"Arni Thorsteinson"

"David Drybrough"

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Year Ended December 31	
	2009	2008
Revenue		
Hotel revenue	$ 63,134,474	$ 53,709,782
Interest and other income	2,677,117	2,771,514
	65,811,591	56,481,296
Expenses		
Hotel operating costs	41,230,815	27,844,095
Operating income	24,580,776	28,637,201
Finance expense (Note 13)	15,521,431	12,281,232
Trust expense	709,711	733,478
Amortization	6,558,811	5,077,624
	22,789,953	18,092,334
Other		
Change in marketable securities	(288,375)	(881,797)
Income before taxes	1,502,448	9,663,070
Income taxes:		
Current	213,530	616,191
Future	384,640	338,616
	598,170	954,807
Net income and comprehensive income	$ 904,278	$ 8,708,263
Net income per unit (Note 14)		
Basic	$ 0.07	$ 0.76
Diluted	0.07	0.75

CONSOLIDATED STATEMENTS OF EQUITY

	2009	2008
Trust units (Note 15)		
Balance, beginning of period	$ 62,590,168	$ 41,044,887
Issuance of trust units	-	565,811
Units issued on conversion of debentures	85,597	18,729,091
Equity component of debentures converted	16,357	3,635,319
Value associated with options exercised	-	36,558
Unit issue costs	(201,006)	(1,421,498)
Balance, end of period	62,491,116	62,590,168
Unit based compensation (Note 17 and 18)		
Balance, beginning of period	146,210	73,464
Value associated with unit options granted	-	109,304
Value associated with options exercised	-	(36,558)
Value of deferred units	51,029	-
Balance, end of period	197,239	146,210
Equity component of convertible mortgage (Note 10)		
Equity component of convertible mortgage issued	471,175	-
Balance, end of period	471,175	-
Equity component of convertible debentures (Note 11)		
Balance, beginning of period	3,678,296	2,406,586
Equity component of convertible debentures issued	2,439,548	4,907,029
Equity component of debentures converted	(16,357)	(3,635,319)
Balance, end of period	6,101,487	3,678,296
Cumulative earnings and accumulated comprehensive earnings		
Balance, beginning of period	12,091,143	3,382,880
Net income	904,278	8,708,263
Balance, end of period	12,995,421	12,091,143
Cumulative distributions to unitholders		
Balance, beginning of period	(18,607,684)	(5,676,458)
Distribution to unitholders	(6,410,009)	(12,931,226)
Balance, end of period	(25,017,693)	(18,607,684)
Total unitholders' equity	$ 57,238,745	$ 59,898,133
Units issued and outstanding (Note 15)	12,825,352	12,812,019
Deferred units outstanding (Note 18)	18,288	-

CONSOLIDATED STATEMENTS OF CASH FLOWS

		2009		2008
Cash provided by (used in) operating activities				
Net income and comprehensive income	$	904,278	$	8,708,263
Items not affecting cash				
Accretion on debt component of convertible debentures		632,346		534,606
Accretion on debt component of convertible mortgage		35,490		-
Unit based compensation		-		109,304
Value of deferred units		51,029		-
Amortization		6,558,811		5,077,624
Amortization of transaction costs		924,520		885,297
Change in fair value of marketable equity securities		288,375		881,797
Future income taxes		384,640		338,616
		9,779,489		16,535,507
Changes in non-cash operating items		1,759,824		1,158,837
		11,539,313		17,694,344
Cash provided by (used in) financing activities				
Proceeds of long-term debt		3,000,000		58,140,000
Proceeds of convertible debentures		15,000,000		30,000,000
Decrease in defeased liability		(395,444)		(360,693)
Repayment of long-term debt		(22,408,023)		(8,155,236)
Exercise of options		-		565,811
Expenditures on transaction costs		(1,442,759)		(2,114,560)
Unit issue costs		(196,376)		(308,773)
Distributions paid on trust units		(6,410,009)		(12,931,226)
		(12,852,611)		64,835,323
Cash provided by (used in) investing activities				
Hotel properties acquired		-		(83,523,293)
Additions to property and equipment		(2,321,511)		(687,991)
Proceeds from expropriated land		811,615		-
Decrease in defeasance assets		563,887		523,161
Deposits on potential acquisitions		750,000		(225,000)
Receipt of mortgage loan receivable		6,000,000		-
Return of capital from marketable equity securities		73,725		55,944
Purchase of marketable securities		(6,458)		(1,921,591)
Receipt of net investment in lease		116,820		108,858
Increase in cash in escrow		(98,156)		(224,311)
		5,889,922		(85,894,223)
Change in cash		4,576,624		(3,364,556)
Cash, beginning of period		2,824,818		6,189,374
Cash, end of period	$	7,401,442	$	2,824,818
Supplementary cash flow information				
Interest paid	$	13,526,041	$	10,812,353
Income taxes paid	$	238,962		906,402

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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1 *Basis of Presentation*

Temple Real Estate Investment Trust ("the Trust") is an open-end real estate investment trust established under the laws of the Province of Manitoba on July 12, 2006.

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The consolidated financial statements of the Trust includes the accounts of the Trust's wholly-owned subsidiaries TR Trust, Temple Limited Partnership, Temple General Partner Inc. and Temple Gardens Mineral Spa Inc., with provision for its indirect 50% proportionate share of assets, liabilities, revenues and expenses of the Moose Jaw Casino Co-ownership. All significant intercompany balances and transactions have been eliminated upon consolidation.

2 *Significant accounting policies*

The accompanying financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (GAAP).

Changes In Accounting Policies

On January 1, 2009, the Trust adopted CICA Handbook Section 3064 - Goodwill and Intangibles. This Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets by profit-oriented enterprises. There is no adjustment to opening equity at the beginning of the year as a result of adopting the new standard.

In January 2009, the Emerging Issue Committee (EIC) of the Canadian Institute of Chartered Accountants issued EIC-173, titled "Credit Risk and the Fair Value of Financial Assets and Liabilities", which clarifies that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and liabilities, including derivative instruments. EIC-173 is applied retrospectively without adjustment of prior periods in interim and annual financial statements for periods ending on or after January 20, 2009. The Trust adopted this recommendation in its fair value determination effective January 1, 2009. The adoption of this guideline did not impact the Trust's results of operations, financial position or cash flows.

In May 2009, the Canadian Institute of Chartered Accountants amended Section 3862, titled "Financial Instruments - Disclosures" to improve disclosures related to fair value measurements of financial instruments, including the relative reliability of the inputs used in those measurements and liquidity risk. These disclosures are effective for the Trust's December 31, 2009 annual consolidated financial statements. These amendments did not impact the Trust's consolidated financial position or results of operations.

Accounting estimates

Accounting estimates are included in financial statements to approximate the effect of past business transactions or events, or to approximate the present status of an asset or liability. Examples include the estimated useful life of an asset. It is possible that changes in future conditions could require changes in the recognized amounts for accounting estimates. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in the period in which they become known.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2 Significant accounting policies (continued)

Financial Instruments

All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities. Transactions to purchase or sell financial assets are recorded on the settlement date.

Financial assets and financial liabilities classified as held-for-trading are subsequently measured at fair value with gains and losses recognized in net income. Financial assets classified as held-to-maturity, loans and receivables and other liabilities are subsequently measured at their amortized cost, using the effective interest method. Available-for-sale financial assets are subsequently measured at fair value with unrealized gains and losses recognized in other comprehensive income until the financial asset is derecognized. Investments in equity instruments are classified as available-for-sale if they do not have a quoted market price in an active market and are measured at cost.

Net gains and losses arising from changes in fair value of loans and receivables, held-to-maturity investments, and other liabilities are recognized in net income upon derecognition or impairment. The Trust does not reclassify a financial instrument into or out of the held-for-trading category while it is held or issued, except in rare circumstances.

Derivative instruments are recorded at fair value including those derivatives that are embedded in a financial instrument or other contract but are not closely related to the host financial instrument or contract, respectively. Changes in the fair values of derivative instruments are recognized in net income, except for derivatives that are designated as cash flow hedges, in which case the fair value change for the effective portion of such hedging relationships are recognized in other comprehensive income. The Trust presently does not have any derivative financial instruments.

The Trust has designated its financial instruments, as follows:

Financial Statement Item	Classification	Measurement
Cash	Held-for-trading	Fair value
Marketable securities	Held-for-trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Cash in escrow	Held-for-trading	Fair value
Mortgage receivable	Loans and receivables	Amortized cost
Defeasance assets	Held-to-maturity	Amortized cost
Accounts payable	Other financial liabilities	Amortized cost
Long-term debt	Other financial liabilities	Amortized cost
Defeased liability	Other financial liabilities	Amortized cost
Convertible debentures - debt component	Other financial liabilities	Amortized cost

Transaction costs are expensed as incurred for financial instruments classified or designated as held-for-trading. For other financial instruments, transaction costs are added to the related financial asset or liability on initial recognition and are measured at amortized cost using the effective interest method. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

2 *Significant accounting policies (continued)*

The Trust assesses impairment of all it financial assets, except those classified as held-for-trading. Management considers whether there has been a breach in contract, such as a default or delinquency in interest or principal payments in determining whether objective evidence of impairment exists. Impairment is measured as the difference between the asset's carrying value and its fair value. Impairment is included in current earnings.

Fair Value

The fair value of a financial instrument is the amount of consideration that could be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no obligation to act. In certain circumstances, however, the initial fair value may be based on other observable current market transactions in the same instrument, without modification or on a valuation technique using market based inputs.

Fair value measurements recognized in the balance sheet are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values:
- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and
- Inputs for the asset or liability that are not based on observable market date (unobserved inputs) (Level 3).

Each type of fair value is categorized based on the lowest level input that is significant to the fair value measurement in its entirety.

Inventories

Inventories of supplies and goods for sale are stated at the lower of cost and net realizable value, on a first-in, first-out basis. The costs of inventories comprise the purchase price, import duties and other non-recoverable taxes and transportation and handling costs.

Property and equipment

Property and equipment are recorded at cost. Property and equipment are amortized over their estimated useful lives. This requires estimation of the useful life of the asset and its salvage and residual value. Long-lived assets are tested for recoverability if events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount of a long-lived asset is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. Impairment losses are measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value. As is true for all accounting estimates, it is possible that changes in future conditions could require changes in the recognized amounts for accounting estimates. Should an adjustment become necessary, it would be reported in earnings in the period in which it became known. The Trust provides for amortization on fixed assets so as to apply the cost of the assets over the estimated useful lives as follows:

	Method	Rate
Buildings	Straight-line	2.5%
Furniture and equipment	Straight-line	5% - 33.3%

Goodwill

Goodwill represents the excess of the purchase price of acquired businesses over the fair value of the net assets acquired. Goodwill is not amortized. Management compares the carrying amount of goodwill to the estimated fair value and recognizes in operations any impairment in value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2 *Significant accounting policies (continued)*

Gift certificate liability
Gift certificates are recorded as a liability when sold and revenue is recognized upon redemption of the gift certificate. Gift certificates are recognized as revenue if not redeemed within three years from the date of issue. It is management's opinion that there is no liability for a gift certificate beyond its expiry date.

In determining the estimated revenue in conjunction with gift certificate liabilities, the Trust relies on assumptions regarding applicable industry performance and redemption rates, as well as general business and economic conditions that prevail or are expected to prevail. Assumptions underlying the measurement of gift certificate liabilities are limited by the uncertainty of predictions concerning future events. By its nature the evaluation of gift certificate liability is subjective and does not necessarily result in precise determinations. Should an adjustment become necessary it will be adjusted in the period known.

Convertible debentures
The convertible debentures are convertible into units, as disclosed in Note 11. Accordingly, the debentures are divided into debt and equity components, based on the net present value of the future payments at the time of issue.

Unit options and warrants
The Trust has a unit option plan available for officers, employees and trustees. The fair value based method of accounting is applied to all unit-based compensation. Compensation expense for option based compensation awards is recognized when unit options are granted over the vesting periods. The fair value of the unit options and warrants granted are estimated on the date of grant using the Black-Scholes option pricing model. On exercise of unit options, consideration received and the accumulated unit options amount relating thereto is credited to trust units. Awards of options and warrants related to private placements or public offerings of units are treated as unit issue costs.

Per unit calculations
Per unit amounts are calculated using the weighted average number of units outstanding during the year. The dilutive effect on per unit amounts resulting from outstanding unit options is calculated using the treasury stock method. Under this method, the diluted weighted average number of units is calculated assuming the proceeds that arise from the exercise of the outstanding options are used to purchase units of the Trust at their average market price for the period.

Revenue recognition
Revenue from services provided and products sold is recognized at the time the service is provided and the products are delivered to the customer. Interest income is recognized on a time proportion basis.

Future income related to the finance-type lease is recognized in a manner that produces a constant rate of return on the net investment in the lease. The investment in the lease for purposes of income recognition is comprised of net minimum lease payments and unearned finance income.

2 *Significant accounting policies (continued)*

Income taxes
The Trust uses the liability method of accounting for income taxes whereby, the Trust is required to: (i) determine its temporary differences between asset balances for income tax purposes and the balances recorded in accordance with GAAP; (ii) determine the periods over which those temporary differences are expected to reverse; and (iii) apply the tax rates enacted at the balance sheet date that will apply in the periods those temporary differences are expected to reverse. The Trust is required to use reasonable estimates in completing the calculation and the result of the calculation is recorded as a future income tax asset or liability.

The Trust is a "Mutual Fund Trust" for Canadian income tax purposes. In accordance with the terms of the Declaration of the Trust, distributions are made at the discretion of the trustees.

In June 2007, legislation relating to, among other things, the federal income taxation of publicly traded income trusts (the "SIFT Rules") was enacted. Under the SIFT Rules, certain distributions from a "specified investment flow-through" trust (a "SIFT") will no longer be deductible in computing a SIFT's taxable income, and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. Distributions of income of a SIFT received by a unitholder that are not deductible to the SIFT will be characterized as dividends payable to the unitholder. Generally, distributions paid as returns of capital will not be subject to this tax.

The SIFT Rules do not apply to a "real estate investment trust" that meets prescribed conditions relating to the nature of its revenue and property (the "REIT conditions"). The Trust does not currently satisfy the conditions. The SIFT Rules are not expected to apply to the Trust until 2011 as they provide for a transition period for publicly traded entities that existed prior to November 1, 2006. As the Trust does not meet the criteria for a Qualifying REIT, GAAP requires that the future income tax asset and liability be recognized for temporary differences expected to reverse in or after 2011.

Temple Gardens Mineral Spa Inc., a wholly owned subsidiary of the Trust, is an operating business and provides for income tax expense using the liability method of accounting for income taxes. Current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between tax and accounting bases of assets and liabilities as well as the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized.

Comprehensive income
The Trust does not have any other comprehensive income or accumulated other comprehensive income.

Future changes to significant accounting policies
The CICA Accounting Standards Board has adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards for public companies will be required to converge with International Financial Reporting Standards for fiscal years beginning on or after January 1, 2011 with comparative figures presented on the same basis.

Management is currently in the process of evaluating the potential impact of IFRS to the consolidated financial statements. This will be an ongoing process as new standards and recommendations are issued by the International Accounting Standards Board. The consolidated financial statements may be significantly different when presented in accordance with IFRS.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 and 2008

2 ***Significant accounting policies (continued)***

CICA Handbook Section 1582 - Business Combinations will apply prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. CICA Handbook Sections 1601 - Consolidations and 1602 - Non-Controlling Interests will be effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. These sections replace the former CICA Handbook Sections 1581 - Business Combinations and 1600 - Consolidated Financial Statements. CICA Handbook Section 1582 establishes standards for the accounting for a business combination. CICA Handbook Section 1601 establishes standards for the preparation of consolidated financial statements. CICA Handbook section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The Trust is currently considering the effect on the financial statements of the new standards.

3 ***Marketable securities***

	December 31 2009	December 31 2008
Marketable equity securities	$ 303,450	$ 665,550
Guaranteed investment certificates	324,758	318,300
	$ 628,208	$ 983,850

Marketable equity securities are recorded at fair value based on published market value and are classified as held-for-trading financial instruments. The investments were written down from their carrying value by $288,375 for the year ended December 31, 2009 (2008 - $881,797).

Guaranteed investment certificates bear interest at 0.001%-2.15% (December 31, 2008 - 1.25% - 2.5%) with maturity dates in 2010 (December 31, 2008 - 2009).

4 ***Inventories***

Inventories of supplies and goods for sale are stated at the lower of cost and net realizable value, on a first-in, first-out basis. The costs of inventories comprise the purchase price, import duties and other non-recoverable taxes and transportation and handling costs.

During the year ended December 31, 2009, cost of sales related to inventory was $7,137,784 (2008 - $2,721,413) and is included in hotel operating costs in the financial statements.

5 *Mortgage receivable*

	December 31 2009	December 31 2008
10% Mortgage loan with all principal and interest due June 1, 2009. The mortgage is secured by mortgage charges on two hotel properties. Payments of principal and interest were not required until maturity.	$ -	$ 6,000,000
Accrued interest	-	610,920
	$ -	$ 6,610,920
Interest income for the year	$ 440,555	$ 628,258

On September 7, 2009, the 10% mortgage receivable in the amount of $7,071,399 was repaid in full.

As additional consideration for advancing these funds, the Trust received the right of first refusal to acquire the Nova Airport Hotel in Fort McMurray, Alberta, the Nova Inn in Peace River, Alberta and the Nova Inn in Whitecourt, Alberta. The right of first refusal agreements expire December 31, 2012.

6 *Net investment in lease*

In 2002, Temple Gardens Mineral Spa Inc. entered into co-ownership of a Moose Jaw casino complex property. The co-ownership completed the development of a 23,400 square foot building and 140 parking stalls. The entire property is subject to a 25 year lease and the tenant must acquire ownership of the property at the end of the lease term for consideration of $1. Under the terms of the lease, the tenant is responsible for all and every cost arising from or related to the leased premises, including the cost of replacement of the structure and foundation.

Pursuant to the terms of the co-ownership agreement, the co-owners each hold a 50% equity interest in the co-ownership, with all equity contributions, distributions, and net income allocations being made on this same 50% basis.

Future income related to the finance-type lease is recognized in a manner that produces a constant rate of return on the net investment in the lease. The investment in the lease for purposes of income recognition is comprised of net minimum lease payments and unearned finance income. The effective interest rate of the net investment in lease is 7.31%.

Interest income included in interest and other income for the year ended December 31, 2009 was $333,179 (2008 - $341,142).

The net investment in lease includes the following:

	December 31 2009	December 31 2008
Total minimum lease payments receivable	$ 7,987,500	$ 8,437,500
Unearned income	(3,345,539)	(3,678,719)
Net investment in lease	4,641,961	4,758,781
Less current portion	(125,370)	(116,819)
	$ 4,516,591	$ 4,641,962

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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6 *Net investment in lease (continued)*

The Trust's proportionate share of future minimum lease payments is $450,000 per annum through October 2011 escalating to $477,500 until the end of the lease term, October 1, 2026.

7 *Defeasance assets and defeased liability*

In conjunction with the refinancing of the Merit and Nomad hotels on September 24, 2007, an existing $3,690,806 loan was defeased. The defeased loan is payable in monthly payments of $56,551, bears interest at 9.41%, was originally amortized over 15 years and is due April 1, 2010. The Trust purchased Government of Canada bonds in the amount of $4,151,677 and pledged them as security to the debtholder. The bonds matured between June 1, 2009 and December 1, 2009, have a weighted average interest rate of 4.14% and have been placed in escrow. The defeasance assets and the defeased liability will be measured at amortized cost using the effective interest rate method of amortization until April 1, 2010 at which time the debt will be extinguished.

The following table reflects the effect of the defeasance asset and the defeased liability.

	Recorded as	Year Ended December 31 2009	2008
Interest income on defeasance assets	Interest and other income	$ 114,730	$ 155,456
Interest expense on defeased liability	Finance expense	280,129	336,266
Amortization of transaction costs	Finance expense	41,389	37,752
		$ (206,788)	$ (218,562)

The unamortized balance of the defeasance transaction costs is $14,664 (2008 - $56,053).

8 *Property and equipment*

December 31, 2009	Cost	Accumulated Amortization	Net Book Value
Land	$ 28,200,924	$ -	$ 28,200,924
Buildings	224,831,975	(12,696,248)	212,135,727
Furniture and equipment	10,628,365	(2,418,775)	8,209,590
	$263,661,264	$ (15,115,023)	$248,546,241

December 31, 2008	Cost	Accumulated Amortization	Net Book Value
Land	$ 29,012,539	$ -	$ 29,012,539
Buildings	205,025,300	(7,130,860)	197,894,440
Furniture and equipment	9,573,528	(1,425,350)	8,148,178
	$243,611,367	$ (8,556,210)	$235,055,157

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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8 *Property and equipment (continued)*

Amortization of property and equipment consists of the following:

	Year Ended December 31 2009	Year Ended December 31 2008
Buildings	$ 5,565,388	$ 4,282,773
Furniture and equipment	993,423	794,851
	$ 6,558,811	$ 5,077,624

During the year ended December 31, 2009, the City of Red Deer expropriated a parcel of land from the Capri Centre for $811,615, which represents fair market value, paid in cash. As a result, the cost of the land at the Capri Centre has been reduced by $811,615.

On August 1, 2009, the Trust took possession of a 68 room expansion at the Merit Hotel. The cost of the expansion was $19,213,900 for the building and $592,540 for furniture and equipment.

9 *Other assets*

	December 31 2009	December 31 2008
Cash in escrow	$ 767,467	$ 669,311
Other	91,102	288,656
Franchise application fee	94,225	94,225
Deposits on potential acquisitions	-	250,000
Deposit on hotel expansion	-	500,000
	$ 952,794	$ 1,802,192

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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10 *Long-term debt*

Long-term debt consists of the following:

	December 31 2009	December 31 2008
First mortgage loans secured by specific hotel properties bearing interest at fixed rates between 5.06% and 6.83% weighted average interest rate - 6.52% (2008 - rates between 5.06% and 7.30%, weighted average interest rate - 6.35%) and maturing between March 30, 2010 and August 1, 2014.	$150,375,362	$152,268,599
10% unsecured loan payable to Saskatchewan Water Corporation, maturing December 1, 2009.	-	15,805
Moose Jaw Casino Co-ownership - 7.08% loan payable, maturing September 1, 2027 secured by a specific assignment of the Saskatchewan Gaming Corporation lease.	3,767,269	3,871,169
Second mortgage loan - secured by a specific hotel property with payments of interest only. Interest was 6% until August 1, 2009 and 20% thereafter, until repaid on November 27, 2009.	-	10,000,000
12% Second mortgage loan - secured by a specific hotel property with payments of interest only, maturing October 31, 2010.	7,040,000	-
6% Second mortgage loan - secured by a specific hotel property, maturing December 31, 2013.	4,804,919	5,000,000
4.5% Convertible mortgage loan - secured by a specific hotel property with payments of interest only, $4,500,000 face value maturing July 31, 2014. The mortgage loan is convertible to trust units at any time during its term at a price of $15.00 at the option of the lender. $471,175 was allocated to equity on issuance of the debt for an estimated cost of borrowing of 7.0%.	4,064,315	-
11.25% Blanket second mortgage loan - secured by specific hotel properties with payments of interest only, maturing January 31, 2011.	-	200,000
	170,051,865	171,355,573
Transaction costs	(1,253,747)	(1,492,488)
Less current portion - net of transaction costs of $522,700 (December 31, 2008 - $576,015)	(50,746,879)	(11,132,872)
	$118,051,239	$158,730,213

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 and 2008

10 Long term debt (continued)

Approximate principal repayments are as follows:

12 months ending December 31

2010	$ 51,269,579
2011	10,532,341
2012	51,644,713
2013	42,834,295
2014	11,082,540
Thereafter	3,124,082
	$170,487,550

Transaction costs are incremental costs that are directly attributable to the acquisition of mortgage financing and include both fees and charges, brokerage fees and commissions, legal fees, advisor and similar costs. Transaction costs are amortized over the term of the respective mortgages using the effective interest method. The transaction cost amortization for the year ended December 31, 2009 amounted to $670,424 (2008 - $689,460).

As a condition of long-term debt the Trust is required to maintain certain annual debt service coverage ratios and certain debt to equity ratios. In addition, capital expenditures must not exceed certain maximums. As at December 31, 2008 and December 31, 2009, the Trust has complied with the covenants.

11 Convertible debentures

As of December 31, 2009, the Trust has three series of convertible debentures outstanding:

Series A

The Trust issued $15,680,000 of Series A convertible redeemable debentures by way of private placement on February 15, 2007. The debentures are unsecured, bear interest at 7.5% payable semi-annually and mature on March 31, 2012. The debentures are convertible to trust units at any time during their term at a price of $5.75 at the option of the debenture holder.

The debentures are redeemable at the option of the Trust at the principal amount, subject to certain terms and conditions, from March 31, 2010 and prior to March 31, 2011, providing that the 20-day weighted average trading price of the units is at least $7.1875 and, on or after March 31, 2011, at their principal amount.

During the year ended December 31, 2009, there were no conversions of Series A debentures.

During the year ended December 31, 2008, $11,914,200 of debentures were converted to 2,072,002 trust units.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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11 Convertible debentures (continued)

Series B
The Trust issued $30,000,000 of Series B convertible redeemable debentures by way of private placement on April 8, 2008. The debentures are unsecured, bear interest at 8.5% semi-annually and mature on April 30, 2013. The debentures are convertible to trust units at any time during their term at a price of $7.50 at the option of the debenture holder.

The debentures are redeemable at the option of the Trust at the principal amount, subject to certain terms and conditions, from April 30, 2011 and prior to April 30, 2012, providing that the 20-day weighted average trading price of the units is at least $9.375 and, on or after April 30, 2012, at their principal amount.

During the year ended December 31, 2009, $100,000 of Series B debentures were converted to 13,333 trust units.

During the year ended December 31, 2008, $10,033,900 of debentures were converted to 1,337,840 trust units.

Senior Secured Convertible Redeemable
The Trust issued $15,000,000 of senior secured convertible redeemable debentures by way of public offering on November 27, 2009. The debentures are secured by a secondary charge on certain hotel properties, bear interest at 8.75% semi-annually and mature on November 30, 2014. The debentures are convertible to trust units at any time during their term at a price of $3.65 at the option of the debenture holder.

The debentures are redeemable at the option of the Trust at the principal amount, subject to certain terms and conditions, from November 30, 2012 and prior to November 30, 2014, providing that the current trading price of the units is at least $4.5625 and, on or after November 30, 2013, at their principal amount.

During the year ended December 31, 2009, there were no conversions of senior secured convertible debentures.

The following schedule allocates the convertible debentures between the debt and equity components on the basis of the net present value of future interest and principal payments at an estimated cost of borrowing without conversion option as reflected in the schedules:

December 31, 2009	Estimated Cost of Borrowing	Debt	Equity	Total	Face Value
Series A	12.00 %	$ 2,259,094	$ 412,489	$ 2,671,583	$ 2,464,500
Series B	13.00 %	17,410,097	3,249,450	20,659,547	19,866,100
Senior Secured	13.25 %	12,593,908	2,439,548	15,033,456	15,000,000
Transaction costs		(1,871,277)	-	(1,871,277)	-
		$30,391,822	$ 6,101,487	$36,493,309	$ 37,330,600

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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11 *Convertible debentures (continued)*

December 31, 2008	Estimated Cost of Borrowing	Debt	Equity	Total	Face Value
Series A	12.00 %	$ 2,192,342	$ 412,489	$ 2,604,831	$ 2,464,500
Series B	13.00 %	16,963,556	3,265,807	20,229,363	19,966,100
Transaction costs		(1,077,537)	-	(1,077,537)	-
		$18,078,361	$ 3,678,296	$21,756,657	$ 22,430,600

Transaction costs are incremental costs that are directly attributable to issuance of convertible debentures and include both fees and charges, brokerage fees and commissions, legal fees, advisor fees and similar costs. Transaction costs are amortized over the term of the debenture using the effective interest method. The transaction cost amortization for the year ended December 31, 2009 amounted to $212,707 (2008 - $158,085).

The accretion of the debt component for the year ended December 31, 2009 of $632,346 (2008 - $534,606), which increases the debt component from the initial carrying amount, is included in financing expense on convertible debentures.

12 *Income taxes*

The expected tax rates applicable to SIFT's of 29.5% for 2011 and 28.0% for 2012 and later have been applied in the periods that temporary tax differences of the Trust are expected to reverse.

	Year Ended December 31 2009	2008
Income tax computed at the Canadian statutory rate of nil applicable to the Trust for 2009 and 2008	$ -	$ -
Increase of future income tax liability arising from change in estimate of temporary differences expected to reverse in or after 2011	426,784	725,591
Current income tax applicable to Temple Gardens Mineral Spa Inc. at the statutory rate of 31.0% (2008 - 31.5%)	213,530	616,191
Future income tax applicable to Temple Gardens Mineral Spa Inc.	(42,144)	(386,975)
	$ 598,170	$ 954,807

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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12 *Income Taxes*

The future tax liability of the Trust and its wholly owned subsidiary corporations consists of the following:

	December 31 2009	December 31 2008
Tax liability related to difference in tax and book values	$ 5,092,306	$ 4,172,540
Tax asset related to deductible issue costs	(520,393)	(845,052)
Tax asset related to income tax loss carryforward	(859,785)	-
	$ 3,712,128	$ 3,327,488

13 *Finance expense*

Financing costs are comprised of the following:

	Year Ended December 31	
	2009	2008
Mortgage loan interest	$ 11,540,203	$ 8,737,170
Accretion of the debt component of convertible mortgage loan	35,490	-
Defeasance mortgage interest	280,129	336,266
Accretion of the debt component of convertible debentures	632,346	534,606
Interest on debentures	2,108,743	1,787,893
Amortization of transaction costs	883,131	847,545
Amortization of defeasance transaction costs	41,389	37,752
	$ 15,521,431	$ 12,281,232

14 *Per unit calculations*

Basic per unit information is calculated based on the weighted average number of units and deferred units (Note 18) outstanding for the period. Diluted per unit information is calculated based on the weighted average diluted number of units for the period, considering the potential exercise of outstanding unit options to the extent that the unit options are dilutive and the potential conversion of outstanding convertible debentures to the extent that the debentures are dilutive.

Income per unit calculations are based on the following:

	Year Ended December 31	
	2009	2008
Income	$ 904,278	$ 8,708,263
Diluted income	$ 904,278	$ 11,188,847
Weighted average number of units	12,829,587	11,499,565
Dilutive options	-	100,894
Dilutive convertible debentures	-	3,416,251
Weighted average number of diluted units	12,829,587	15,016,710

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 and 2008

14 *Per unit calculations (continued)*

The following securities were not included in the diluted net income per unit calculation as the effect would have been anti-dilutive.

	Exercise/Conversion Price	Number of units if converted or exercised at December 31, 2009
Unit options		
	$ 3.00	7,666
	$ 5.00	109,000
	$ 6.19	351,000
Convertible debentures		
Series A	$ 5.75	428,609
Series B	$ 7.50	2,648,813
Senior Secured	$ 3.65	4,109,589
Convertible mortgage loan	$ 15.00	300,000

15 *Trust units*

	Year Ended December 31, 2009		Year Ended December 31, 2008	
	Units	Amount	Units	Amount
Outstanding, beginning of period	12,812,019	$ 62,590,168	9,295,010	$ 41,044,887
Units issued on exercise of options	-	-	107,167	565,811
Value associated with options exercised	-	-	-	36,558
Units issued on exercise of convertible debentures	13,333	85,597	3,409,842	18,729,091
Equity component of debentures converted	-	16,357	-	3,635,319
Unit issue costs	-	(201,006)	-	(1,421,498)
Outstanding, end of period	12,825,352	$ 62,491,116	12,812,019	$ 62,590,168

16 *Distributions*

The Trust makes distributions on its units in accordance with the Declaration of Trust, at the discretion of the Trustees. It is the intention of the Trust, although not a contractual requirement, to distribute all net income and net realized capital gains in order to eliminate the Trust's liability for tax under Part I of the Income Tax Act. Distributions in the amount of $6,410,009 in 2009 (2008 - $12,931,226) were paid to Unitholders.

17 *Unit options and warrants*

Option plan

The Trust may grant options to trustees, senior officers, employees of the Trust or of a subsidiary of the Trust, management company employees of the Trust or any subsidiary of the Trust investor relations' consultants and technical consultants to the Trust.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 and 2008

17 *Unit options and warrants (continued)*

The maximum number of units reserved for issuance under all securities compensation arrangements is limited to 10% of the total number of issued and outstanding units. The maximum number of units that may be issued to a participant shall not exceed 5% of the total number of issued and outstanding units provided that person is other than a consultant or person employed in investor relations activities and 2% of the total number of issued and outstanding units for all consultants and persons employed in investor relations activities.

The Trustees set the exercise price at the time that an option is granted under the plan, which exercise price shall not be less than the discounted market price of the shares. The discounted market price is the market price of the shares, less a discount, which shall not exceed 25% if the market price is $0.50 or less, 20% if the market price is from $0.51 to $2.00, and 15% if the market price is above $2.00 as determined under the policies of the Exchange.

The options have a maximum term of five years from the date of grant unless otherwise specifically provided by the Board of Trustees and authorized by the Exchange. For a participant employed in investor relations activities, no option shall be exercisable for a period exceeding 12 months from the date of grant, with no more than 1/4 of the options vesting in any three-month period.

Unit options

	Year Ended December 31, 2009		Year Ended December 31, 2008	
	Unit options	Weighted Average Exercise Price	Unit options	Weighted Average Exercise Price
Outstanding, beginning of period	467,666	$ 5.86	174,833	$ 4.75
Unit options granted during period	-	-	400,000	6.19
Unit options exercised during period	-	-	(107,167)	5.28
Unit options outstanding and vested, beginning and end of period	467,666	$ 5.86	467,666	$ 5.86
Weighted average remaining life (years)	2.85		3.85	

On January 29, 2008, the Trust granted options to purchase 400,000 units at $6.19 per unit. The options will expire five years from the date they were granted. The fair value of $109,304 associated with the options issued, included in trust expense, was calculated using the Black-Scholes model for option valuation and charged to unit-based compensation, assuming a weighted average volatility of 31% on the underlying units, a dividend yield rate of 15.50% and the weighted average risk free interest rate (typically the Canada bond rate at the date of grant).

18 *Deferred unit plan*

The Trust has a deferred unit plan available for trustees, officers, employees, or consultants of the Trust under which, any trustee, officer, employee, or consultants of the Trust have their annual bonus, annual board retainer or board meeting fees payable to that person by the Trust paid in the form of deferred units. The fair value based method of accounting is applied to all unit-based compensation. The fair value of deferred units granted is estimated on the date of grant using the market value of units of the Trust. Compensation expense is recognized when deferred units are granted. On the redemption of deferred units, the accumulated deferred unit value is credited to the units of the Trust.

The number of deferred units received by a participant is determined by dividing the amount of the annual bonus, annual board retainer or board meeting fees as applicable to be paid in the form of deferred units on that date by the fair market value of the Trust's units.

Deferred units granted to Trustees shall vest immediately. Deferred units granted to participants other than Trustees shall vest 33% on the first anniversary of grant, 33% on the second anniversary of grant, and 34% on the third anniversary of grant. In the event of any change of control, any unvested deferred units shall vest upon the earlier of the next applicable vesting date and the date that is immediately prior to the date upon which the change of control is completed. The board shall have the discretion to vary the manner in which deferred units vest for any participant.

The deferred units credited to a participant (including deferred units that have not yet vested) shall vest immediately and be redeemable by the participant following the termination other than for cause, retirement, or death, of the participant. In the event that a participant is terminated for cause, only the deferred units that have vested shall be redeemable and any unvested deferred units shall be cancelled.

Whenever cash distributions are paid on the units of the Trust, additional deferred units will be credited to the participant based on the number of deferred units held, the amount of the distribution and the market value of a unit of the Trust on the date of the distribution. Additional deferred units shall vest at the same time and on the same basis as the deferred units in respect of which they are credited.

Deferred units granted to Trustees totaled 18,288 (2008 - nil) units for the year ended December 31, 2009. The Trust expensed $51,029 for the year ended December 31, 2009 (2008 - nil) of unit based compensation related to the deferred unit plan which was included in Trust expenses in the consolidated statements of income and comprehensive income.

19 *Related party transactions*

Asset management agreement
The Trust entered into an asset management agreement, for an initial term expiring October 1, 2011, with Shelter Canadian Properties Limited, a unitholder. The agreement provides for Shelter to receive an asset management fee of 1.5% of the gross revenues of the Trust and its subsidiaries on a consolidated basis. The asset management agreement requires Shelter to act as administrator of the Trust by providing accounting, human resource services, office space and equipment and the necessary clerical and secretarial personnel for the administration of the day-to-day activities of the Trust.

The Trust incurred service fees to Shelter Canadian Properties Limited of $997,779 for the year ended December 31, 2009 (2008 - $858,658). Included in accounts payable and accrued liabilities is $245,750 (2008 - $224,819) due to Shelter Canadian Properties Limited.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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20 *Investment in co-ownership*

During the 2002 fiscal year, Temple Gardens Mineral Spa Inc. entered into co-ownership of a Moose Jaw casino complex property. The co-ownership completed the development of a 23,400 square foot building and 140 parking stalls. The entire property is subject to a 25 year lease and the tenant must acquire ownership of the property at the end of the lease term for consideration of $1. Under the terms of the lease, the tenant is responsible for all and every cost arising from or related to the leased premises, including the cost of replacement of the structure and foundation.

Pursuant to the terms of the co-ownership agreement, the co-owners each hold a 50% equity interest in the co-ownership, with all equity contributions, distributions, and net income allocations being made on this same 50% basis.

Summarized financial information of the Trust's interest in a jointly controlled entity, which has been proportionately consolidated, is as follows:

	Year ended December 31 2009	2008
Assets	$ 4,777,450	$ 4,789,720
Liabilities	$ 3,791,053	$ 3,895,554
Net income	$ 82,684	$ 67,218
Cash flow from operations	$ (12,951)	$ (12,121)
Cash flow from investing	$ 116,821	$ 108,859
Cash flow from financing	$ (103,898)	$ (96,915)

21 *Acquisitions*

The Trust did not complete any acquisitions for the year ended December 31, 2009. The Trust has completed the following acquisition for the year ended December 31, 2008. The net assets acquired in the transactions are as follows:

Year ended December 31, 2008

Date	Property	Total Purchase Price	Mortgage Financing Amount
January 31, 2008	Vantage Inn and Suites Fort McMurray, Alberta	$ 19,400,000	$ 15,640,000
June 1, 2008	Best Western Wayside Inn and Suites Lloydminster, Alberta	22,500,000	-
December 30, 2008	Capri Centre Red Deer, Alberta	40,000,000	29,000,000
		$ 81,900,000	$ 44,640,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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21 *Acquisitions (continued)*

The assets acquired in the transactions were as follows:

	Year Ended December 31 2009	2008
Land	$ -	$ 10,010,000
Buildings	-	69,176,402
Furniture and equipment	-	2,700,000
Transaction costs	-	322,198
Working capital, net	-	1,636,891
	$ -	$ 83,845,491
Consideration:		
Cash	$ -	$ 39,205,491
Mortgage financing	-	44,640,000
	$ -	$ 83,845,491

22 *Risk management and fair values*

Risk management
In the normal course of business, the Trust is exposed to financial risk that arises from its indebtedness, including fluctuations in interest rates and in the credit quality of its customers. Management's involvement in operations helps identify risks and variations from expectations. The Trust does not manage risk through the use of hedging transactions. As a part of the overall operation of the Trust, management takes steps to avoid undue concentrations of risk. The Trust manages the risks, as follows:

Liquidity risk
The Trust's principal liquidity needs arise from working capital requirements, debt servicing and repayment obligations, planned funding of maintenance, leasing costs and distributions to Unitholders, and possible property acquisition funding requirements.

The above liquidity needs are funded from cash flows from operations, with the exception of debt repayment obligations and property acquisition funding requirements. These are funded from refinancing the Trust's maturing debt or financing unencumbered properties. The particular features and quality of the underlying assets being financed and the debt market parameters existing at the time will affect the success of this strategy. If this strategy is unsuccessful, other sources of funding include raising new equity by issuing Units. The risk with issuing new capital is that the capital markets may not be receptive to an equity issue with financial terms favourable to the Trust.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 and 2008

22 Risk management and fair values (continued)

There is a risk that lenders will not refinance maturing debt on terms and conditions acceptable to the Trust or on any terms at all. The risk associated with the refinancing of maturing debt is mitigated as the maturity dates of the mortgage portfolio are staggered over a number of years. The following are the estimated maturities of the Trust's financial liabilities from continuing operations with convertible debentures disclosed at their face value as at December 31, 2009:

	Total	2010	2011	2012	2013	2014	Thereafter
Accounts payable and accrued liabilities	$ 4,570,013	$ 4,570,013	$ -	$ -	$ -	$ -	$ -
Long-term debt	170,487,550	51,269,579	10,532,341	51,644,713	42,834,295	11,082,540	3,124,082
Defeased liability	2,834,896	2,834,896	-	-	-	-	-
Convertible debentures	37,330,600	-	-	2,464,500	19,866,100	15,000,000	-
Total	$215,223,059	$ 58,674,488	$10,532,341	$54,109,213	$ 62,700,395	$26,082,540	$ 3,124,082

Interest rate risk
Interest rate risk is the risk that changes in market interest rates may have an effect on the cash flows associated with some financial instruments, known as interest rate cash flow risk, or on the fair value of other financial instruments, known as interest rate price risk.

Obtaining long-term mortgages with fixed interest rates minimizes interest rate cash flow risk.

Market risk
Market risk is the risk that changes in market prices will have an effect on future cash flows associated with financial instruments. Market risk comprises three types of risk: credit risk, currency risk, and other price risk.

Credit risk
Credit risk arises from the possibility that debtors may be unable to fulfill their commitments. For a financial asset, this is typically the gross carrying amount, net of any amounts offset and any impairment losses.

The Trust has credit policies to address credit risk, which are applied when granting credit and does include the analysis of the financial position of the debtor and review of credit limits. The Trust also does review credit history and credit performance as part of the credit accreditation process. An allowance for doubtful accounts or other impairment provisions are established based upon factors surrounding credit risk, historical trends and other information.

A financial asset is past due when a debtor has failed to make a payment when contractually due. The following is an aging of rents receivable past due but not impaired:

	December 31 2009	December 31 2008
Accounts receivable:		
0 to 30 days overdue	$ 125,163	$ 264,555
More than 30 days overdue	112,897	145,679
	$ 238,060	$ 410,234

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 and 2008

22 ***Risk management and fair values (continued)***

The following is an analysis of bad debt charges to income included in hotel operating costs:

	Year Ended December 31 2009	Year Ended December 31 2008
Amounts charged to income (recovery)	$ (7,005)	$ -
Percent of hotel revenue	(0.01%)	0.00%

Currency risk
Currency risk is the risk that changes in foreign exchange rates may have an effect on future cash flows associated with financial instruments. The Trust has no transactions denominated in foreign currency and is not exposed to foreign currency risk.

Other price risk
Other price risk is the risk that changes in market prices, including commodity or equity prices, will have an effect on future cash flows associated with financial instruments. The cash flows associated with financial instruments of the Trust are not exposed to other price risk.

Fair values
Financial instruments include cash, accounts receivable, investment in marketable securities, mortgage receivable, cash in escrow, defeasance assets, accounts payable, long-term debt, defeased liability, and the debt component of convertible debentures payable. Except for the defeasance asset, long-term debt, defeased liability, and the debt component of convertible debentures; the carrying values of these financial instruments approximate fair value due to the short term nature of financial instruments.

The carrying value of the long-term debt are impacted by changes in market yields which can result in differences between the carrying value and fair value of instruments. The fair value of long-term debt has been estimated based on the current market rates for debt with similar terms and conditions. The estimated fair value of long-term debt as at December 31, 2009 is $175,832,017 (December 31, 2008 - $178,999,334).

The carrying value of the debt components of convertible debentures payable are impacted by changes in market yields which can result in differences between the carrying value and fair value of instruments. The fair value of the debt component of convertible debentures payable has been estimated based on the current market rates for debentures with similar terms and conditions. The estimated fair value of the debt component of convertible debentures payable as at December 31, 2009 is $34,066,577 (December 31, 2008 - $19,155,898).

The marketable equity securities are recorded at fair value based on market values as at December 31, 2009.

The fair value of the defeasance assets and the defeased liability is nil on a net basis as cash flows to the Trust will be nil.

Fair value is an estimate of the amount at which items might be exchanged in an arm's length transaction between knowledgeable willing parties who are under no compulsion to act. Fair value should not be interpreted as an amount that could be realized in immediate settlement of the instruments. The estimate of fair value at year-end may not represent fair values at any other date. The determination of fair value is affected by the use of judgment and by uncertainty.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009 and 2008

22 *Risk management and fair values (continued)*

The fair value hierarchy of financial instruments measured at fair value on the balance sheet is as follows:

	December 31, 2009			December 31, 2008		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Cash	$ 7,439,955	$ -	$ -	$ 2,824,818	$ -	$ -
Marketable securities	303,450	324,758	-	665,550	318,300	-
Cash in escrow	767,467	-	-	669,311	-	-

23 *Management of capital*

The capital structure of the Trust is comprised of the following:

	December 31 2009	December 31 2008
Mortgage debt	$ 168,798,118	$ 169,863,085
Convertible debentures	30,391,822	18,078,361
Unitholders' equity	57,238,745	59,898,133
Total	$ 256,428,685	$ 247,839,579

The Trust manages capital in order to safeguard its ability to continue as a going concern; to help ensure that returns are provided to Unitholders, and to help ensure an appropriate balance of risk and return.

The overall capital management strategy addresses the following considerations:

- The equity component of acquired properties is primarily funded from the proceeds of trust units or convertible debentures.
- Mortgage debt financing is arranged to optimize the leveraged returns from the hotel portfolio.
- Total mortgage debt financing is maintained within the overall debt limits as established by the Declaration of Trust. The Declaration of Trust allows total mortgage indebtedness of the Trust up to 75% of the appraised value of all properties.
- The Trust will endeavour to obtain a fixed rate of interest.
- Mortgage due dates are structured to reflect the nature of the properties being financed and debt maturity dates will be staggered, to the extent possible, in order to manage refinancing risk.

As of December 31, 2009 and December 31, 2008, total mortgage indebtedness was 54% and 58% respectively of the appraised value of properties. The individual property appraisals were prepared between 2007 and 2009.

The Trust monitors capital from time-to-time using a variety of measures which are applicable to the hotel industry. Monitoring procedures are typically performed as a part of the overall management of operations and are performed with the goal of enhancing the ability of the Trust to access capital and/or reduce the cost of capital.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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23 *Management of capital (continued)*

In order to maintain or adjust the capital structure the Trust may issue units, debentures or mortgage debt; adjust the amount of distributions paid to shareholders; return capital to shareholders; or reduce debt.

Market requirements for attracting capital may vary and may not be accurately predicted by the Trust.

24 *Commitments*

The Trust is committed under the terms of operating lease agreements for occupancy and equipment with the following annual lease payments over the next four years and thereafter.

2010	489,530
2011	489,530
2012	430,942
2013	138,000

The Trust has entered into commitments to fix natural gas rates at $8.85 per gigajoule at Temple Gardens Mineral Spa until October 2012 to fix energy costs. The commitments are in accordance with the Trust's expected usage requirements at this location.

Hotel management
Temple REIT has retained Atlific Hotels and Resorts to manage all of the hotels for its existing property portfolio. For the year ended December 31, 2009, the Trust paid management fees of $1,463,979 (2008 - $983,610).

25 *Subsequent events*

Unit options
On January 12, 2010, the Trust issued an aggregate total of 80,000 unit options to purchase TREIT units at $3.01 per unit. The options were issued pursuant to the TREIT option plan.

Long-term debt
On March 26, 2010, the Trust extended the first mortgage in the amount of $33,147,038 that is secured by the Clearwater Hotel in Fort McMurray, Alberta. The balance of the mortgage was due on March 30, 2010. Pursuant to the option in the loan agreement, the Trust extended the maturity date of the mortgage until March 30, 2011 on the same terms and conditions. A further one year renewal option is available to the Trust in 2011.

UNITHOLDER INFORMATION

Trustees and Officers

The investment policies and operations of Temple REIT are subject to the control of the trustees, pursuant to the terms of a Declaration of Trust. The Declaration of Trust provides for a minimum of three trustees and a maximum of ten trustees and requires that the majority of trustees be independent trustees. The Declaration of Trust provides Shelter Canadian Properties Limited with the right to appoint one trustee.

The current trustees of Temple REIT are Ms. Rosanne Hill Blaisdell, Mr. Gary Buckley, Mr. David Drybrough, Mr. Rod Marlin and Mr. Arni Thorsteinson. Ms. Hill Blaisdell is the Managing Director for Harvard Buildings Inc. and Vice President of Leasing for Harvard Developments. Mr. Buckley is the owner of the Elkhorn Resort and Conference Centre and the owner/operator of various other real estate properties. Mr. Drybrough was Vice President of Gendis Inc. prior to his retirement in January 2004. Mr. Marlin was formally the President, CEO and Director of Eveready Inc.(formerly Eveready Income fund). Eveready was acquired by Clean Harbors, Inc. July 31, 2009 and Mr. Marlin has served as a director of Clean Harbors since that date. Mr Thorsteinson is the President of Shelter Canadian Properties Limited and serves as Chief Executive Officer of Temple REIT. Mr. Thorsteinson is the appointee of Shelter Canadian Properties Limited.

The Chief Financial Officer of Temple REIT is Mr. John Liddle, CGA, an employee of Shelter Canadian Properties Limited.

Asset Manager of the Trust

Shelter Canadian Properties Limited has been appointed by the Trustees, pursuant to the terms of the Asset Management Agreement, to provide asset management services, to administer the daily affairs of Temple REIT and to perform the accounting and reporting functions of Temple REIT.

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Securities Listings

TSX Venture Exchange
Unit trading symbol: TR.UN
Debenture trading symbol: TR.DB.A
TR.DB.B
TR.DB.S

Unitholder and Investor Contact

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